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ABSTRACT

This publication provides instructors with materials for an export management specialist (EMS) training program. The objective of the training program is to assist companies in reaching their export goals by educating current and potential managers about the basics of exporting. It provides a foundation for considering international trade and for organizing export activities. Each of the 22 units contains some or all of these components: unit objectives; suggested activities; specific objectives that provide the content; supplements that help participants apply unit objectives to specific needs of their export operations and provide information needed to complete an assignment; assignments; quick checks for self-evaluation; and assignment and quick check answers. Units cover introduction to exporting; export potential; introduction to market research; foreign trade data sources; market barriers; international marketing plan; export sales; promotion; service after the sale; risks in export sales; terms of sale; financing; payment and collection; export documents and the movement of goods; export packing; insurance; U.S. export regulations and licensing requirements; antiboycott compliance; Foreign Corrupt Practices Act and other issues; dispute prevention and resolution; in-house regulatory compliance programs; and export organization. A glossary is attached. (YLB)

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EXPORT MANAGEMENT SPECIALIST

A TRAINING PROGRAM

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INSTRUCTOR'S EDITION

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Oklahoma Department
of Vocational and Technical Education
Stillwater, Oklahoma

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Export Management Specialist

Instructor's Edition

Prepared by the
Curriculum and Instructional Materials Center
Oklahoma Department of Vocational and Technical Education
Stillwater, Oklahoma

and
The Center for International Trade Development,
Oklahoma State University
Stillwater, Oklahoma

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FOREWORD

The Oklahoma Department of Vocational and Technical Education and the Center for International Trade Development at Oklahoma State University are committed to the state's continued economic development. Examples of this commitment can be seen in the many services vocational-technical education offers to Oklahoma's adults and to state businesses and industries, and in the specialized export assistance services provided by the CITD.

As one effort in strengthening the state's role in international trade, the Oklahoma Department of Vocational and Technical Education and the Center for International Trade Development hope to assist Oklahoma companies to enter or expand export trade and take advantage of the growing world marketplace.

Through the *Export Management Specialist* (EMS) training program, state firms can begin to take advantage of the many export opportunities for high-quality Oklahoma goods and services. The EMS training program can assist companies in reaching their export goals by educating current and potential managers about the basics of exporting. The EMS training program provides a valuable foundation for considering international trade and for organizing export activities. Oklahoma's Area Vocational-Technical Schools and the Center for International Trade Development provide the human resources and expertise necessary to complement the training program.

We support and encourage your efforts in pursuing export trade and congratulate you on taking an important first step.

Roy Peters, Jr.
Director,
Oklahoma Department of
Vocational and Technical Education

R. Christopher Wyatt
Executive Director,
The Center for International
Trade Development

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Craig A. Maile
Curriculum Specialist,
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USE OF THIS PUBLICATION

Unit Objectives (white pages)

Each unit is based on performance objectives. These objectives state the goals of the unit. Performance objectives include the Unit Objective, explaining the subject matter to be covered in the unit, and Specific Objectives, stating the performance requirements for the unit. Specific Objectives are a "table of contents" for the unit.

The Specific Objectives can also assist the instructor in deciding upon teaching strategies and instructional methods for each unit. As the instructor, you should prepare for each unit by considering how each objective can best be taught. The Specific Objectives can also serve as a quick "pre-test" to evaluate the prior knowledge of participants before presenting the unit. You can then adapt your presentation to the specific needs of the participants.

A limited number of performance terms have been used in the objectives for this training program. These terms can help promote effective communication among all individuals using this program.

Suggested Activities (pink pages)

The Suggested Activities pages at the beginning of each unit offer suggestions for delivery and/or presentation and can help you prepare for presenting each unit. Review the Suggested Activities for each unit before presenting the unit and plan in advance for any supplemental materials, outside resources and guest speakers, and media.

Specific Objectives (green pages)

The Specific Objectives provide the "must know" content needed to reach the overall Unit Objective. Each Specific Objective matches the questions and the performance required on the Quick Check for the unit.

Supplements (green pages)

The Supplements for each unit can help participants to apply unit objectives to the specific needs of their export operations. Supplements may also provide information needed to complete an Assignment. Participants are not required to complete the Supplements in order to complete this training program.

Assignments (tan pages)

The Assignments in specific units allow participants to review specific objectives and/or to apply the information presented in the unit. In most cases, the Assignments are "self-contained" and do not require participants to have business experience in order to complete the Assignment.

Quick Checks (yellow pages)

Each unit has a Quick Check. The questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of each unit and in the Specific Objectives pages.

Use the Quick Checks for purposes of self-evaluation only. Clarify this point with participants.

Assignment and Quick Check Answers (pink pages)

These components can help you to evaluate the performance of participants and to identify possible areas requiring special emphasis or review.

CORRECTIONS AND SUGGESTIONS

The Curriculum and Instructional Materials Center (CIMC) wants to provide vocational instructors and students with materials that are accurate and effective. Although the CIMC strives to maintain the highest standards of development and production, oversights occasionally do occur. If you find any errors in this or other CIMC publications, or have suggestions for improving their usefulness in vocational programs, please notify the CIMC staff. One easy way of pointing out errors is to make a photocopy of the affected page and to indicate the correction on the copy. Mail this information to the CIMC, where it will be used to correct the publication before the materials are reprinted.

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UNIT OBJECTIVES

INTRODUCTION TO EXPORTING

1

INTRODUCTION

Exporting is the direct or indirect sale of goods or services to foreign markets. New-to-export companies can add their goods and services to the variety of those that have already found foreign markets. Consumer goods, industrial goods, agricultural commodities, food products and computer software are examples of the many types of goods sold in foreign markets. Service exports can include accounting and financial services, insurance, management consulting and computer services. U.S. companies can export directly or indirectly. Like domestic sales, export sales involve both opportunities and risks.

Exporting is one form of international business. Other forms include international joint ventures, technology licensing, branch or subsidiary operations, and foreign sales offices.

UNIT OBJECTIVE

After completing this unit, you should be able to define direct and indirect exporting in comparison with other forms of international business. You should also be familiar with common export objectives and the unique risks and activities involved with export sales. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you should be able to

1. Define exporting.
2. Distinguish between direct and indirect exporting.
3. Match terms associated with direct and indirect exporting with their correct definitions.
4. Distinguish among methods of direct and indirect exporting.
5. Distinguish among advantages and disadvantages of direct and indirect exporting.
6. Describe differences between export sales and domestic sales.
7. Compare exporting with other forms of international business.
8. Describe factors affecting the growth of U.S. exports.
9. Identify benefits of increases in U.S. exports.
10. List common export objectives.

11. Distinguish among common risks and common mistakes in exporting.
12. Match basic export activities with common tasks associated with each.
13. Assess the need for exporting. (Assignment 1)

PREPARATION

- Order additional materials to supplement this unit.

Publications

- *A Basic Guide to Exporting* (Current edition)
- *Business America* magazine (subscription)

Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; or contact Department of Commerce district offices.

- *Trade Digest* newsletter. Available from the Center for International Trade Development, Hall of Fame and Washington, Stillwater, Oklahoma 74078-0390.

NOTE: Also see the Unit References.

Media

- *The Dollars and Sense of Exporting.* Color. U.S. Department of Commerce. Contact your Department of Commerce district office.
- *The World Is Your Marketplace.* Color. 20 minutes. St. Louis Community College at Forest Park. Focuses on the general problems and prospects of going international, with special attention on the role of cultural differences in conducting international transactions. Available from St. Louis Community College at Forest Park, Department of Business, 5600 Oakland Avenue, St. Louis, MO 63110. Call (314) 644-9747.

- Review the unit and plan your presentation:
  - Estimate the amount of material that can be covered in each class session.
  - Plan for appropriate Assignments.
  - Identify objectives that you can supplement with other resources.

  - Invite guest speakers in advance.

    EXAMPLE: Area exporters, Department of Commerce specialists, CITD trade specialists/analysts

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities in addition to the Assignments.

DELIVERY

Objective 1

- Give examples of state and/or local goods and services exported.
- Invite area exporters to discuss their export operations (especially their beginnings).

Objectives 2-4

- Give examples of direct and indirect exporting, and show each example as a flowchart of the parties involved from the U.S. manufacturer to the foreign destination.
- Emphasize the value of learning the "language of exporting," including terms and definitions.
- Invite representatives of area companies exporting indirectly to answer questions from participants, such as advantages, disadvantages, risks, etc.
- Refer to Supplement 1.

Objective 5

- Discuss the importance of each advantage and disadvantage of indirect exporting.

Objective 6

- Illustrate the importance of each of the differences, if possible. Describe possible situations where these differences become noticeable.
- Explain how the differences between export sales and domestic sales become more important as the firm's involvement in direct exporting increases.

Objective 7

- Discuss the level of company involvement required for each of the forms of international business, and explain how each form is different from direct and indirect exporting.
- Give the advantages and disadvantages of each form of international business.
- Invite area exporters to discuss the impact of export sales on their company.

Objective 8

- For each factor, describe possible situations and their effects on the growth of U.S. exports. For example, discuss the effects of an increase (or decrease) in foreign currency values, the effects of changes in labor costs, etc.

Objective 9

- Describe each of the benefits of increases in U.S. exports. Give examples from current events as reported in newspapers, magazines, trade journals, and other media.
- Obtain trade statistics to demonstrate the effects of increases in U.S. exports, if possible.

Objectives 10-11

- Give examples of each export objective.
- Emphasize the importance of exporting for the right reasons. Companies must base their decisions on their unique situations.
- Refer to Supplement 2.
- Give examples of each of the risks in exporting.
- Explain how each mistake can contribute to export failure, and suggest ways of preventing each mistake.
- Emphasize the importance of management commitment. Describe possible situations where management commitment to exporting can contribute to export success or failure.

Objective 12

- For each activity, explain the individual tasks involved and the importance of the activity.

APPLICATION

Objective 13

- Introduce Assignment 1. Complete the Assignment as an in-class or take-home activity after discussing the related objectives.
- Review the related objectives before completing the Assignment, if needed.
- Create additional Assignments, as needed, to reinforce the objectives and/or to meet the needs of participants.

EVALUATION

- Give the Quick Check soon after presenting the unit and after completing the Assignment.
- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- *A Basic Guide to Exporting*, U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service. September 1986.
- "IMAP" workshops (International Management Assistance Program), offered by the Center for International Trade Development (CITD), Oklahoma State University.
- "Fundamentals of Exporting" workshop, offered by Oklahoma International Export Services (OIES), a joint program of the Oklahoma Department of Commerce and the U.S. and Foreign Commercial Service of the U.S. Department of Commerce.
- "The U.S. Export Boom: Causes and Effects," by Gary Teske, in *Business America* magazine, U.S. Department of Commerce. October 24, 1988.

SPECIFIC OBJECTIVES — INTRODUCTION TO EXPORTING 1

OBJECTIVE 1

Define exporting.

Exporting—The direct or indirect sale of goods or services to foreign markets

EXAMPLE

Goods	Services
Consumer goods	Accounting/financial services
Industrial goods	Data/computer services
Agricultural commodities	Engineering/construction
Food products	Insurance
Software and intellectual property	Management consulting
	Educational services

OBJECTIVE 2

Distinguish between direct and indirect exporting.

Direct exporting—The U.S. company establishes complete responsibility for the export process within the company, including researching the market, establishing distribution networks, performing exporting functions, and servicing the market

NOTE: With direct exporting, the manufacturer controls the export operation. However, the export sale is usually accomplished through foreign intermediaries such as agents, distributors, manufacturer's representatives, and/or other foreign representatives.

Indirect exporting—The U.S. company assumes partial responsibility for and has limited control over the export sales process by appointing another company to locate foreign buyers and ship its goods for export, or by selling its goods to another company, which in turn exports the goods

NOTE: With indirect exporting, the manufacturer has less control over the export operation than with direct exporting.

OBJECTIVE 3

Match terms associated with direct and indirect exporting with their correct definitions.

DIRECT EXPORTING

Channel of distribution—The network of firms or individuals through which a U.S. company exports its goods to foreign markets

Choice of law/governing law—In contracts between U.S. companies and foreign representatives, the U.S. company's specification in the contract ("governing law clause") that the contract will be governed under the laws of a U.S. state

NOTE: Your choice of law can help you protect your company against local (foreign) legislation protecting foreign representatives.

Foreign distributor—A foreign representative who buys and sells export goods for its own account and resells the goods for a profit

Foreign government-controlled trading company—A trading company authorized and controlled by a foreign government, through which export sales must be made

Foreign inquiry—Contact from a potential foreign buyer

Foreign sales agent—A foreign representative who procures business for and on behalf of the U.S. principal, usually for a commission, but does not buy and sell goods for its own account

Principal—The U.S. company when it appoints a foreign representative

INDIRECT EXPORTING

Export management company (EMC)—A company that facilitates sales between U.S. companies and foreign buyers; performs the services of an "export department" for its client companies through its own established networks of foreign sales agents, distributors, and customers, and either buys and resells the client company's goods or receives a commission on sales; its functions generally include export sales, shipping, financing, distribution, promotion and other areas; can specialize by geography or industry

NOTE: Typically, EMCs do not take title to the goods. However, larger EMCs may be able to purchase export goods or provide financing.

Export trading company (ETC)—A private or government-sponsored company (such as by a state government) established by a group of producers in a common industry for coordinated export operations; is exempt from U.S. antitrust laws for the purpose of foreign competition; its functions generally include export sales, shipping, financing, distribution, promotion and other areas

NOTE: Some ways that the ETC differs from the EMC include the following: (1) the ETC often has tax advantages; (2) the ETC is industry-sector oriented; (3) the ETC uses multiple sales methods; and (4) the ETC may buy and sell **from** many markets for sales **to** many markets.

Export jobber/wholesaler—A domestic company that buys and takes title to a U.S. manufacturer's goods, then sells the goods to its own foreign buyers

OBJECTIVE 4

Distinguish among methods of direct and indirect exporting.

DIRECT EXPORTING

- Selling through representatives such as foreign sales agents or "selling agents," foreign distributors and others
- Selling to foreign retailers
- Selling directly to foreign end-users
- Selling to foreign government-controlled trading companies

INDIRECT EXPORTING

- Appointing an export management company (EMC) or an export trading company (ETC) to act as the "export department" for your company

  NOTE: You can locate EMCs through (1) regional associations of EMCs, (2) National Association of Export Management Companies, (3) industry/trade associations and publications, (4) successful exporters, and (5) *Partners in Export Trade*, a directory of U.S.-based companies and their key contacts, products, and services, arranged alphabetically by state. Published by the DOC/ITA to help promote contact between potential exporters and firms offering export trade services.

- Selling to the U.S. buying offices of large foreign firms or foreign governments

- Selling to U.S. companies for export through their own foreign distribution channels ("piggyback")

  EXAMPLE: A U.S. company provides a range of products and services under contract to a foreign buyer, but does not produce a full range of products and can complement its product line by purchasing from other U.S. companies. This "immediate" channel of distribution via other, larger companies is especially helpful to small companies wanting to break into export markets.

- Selling to an original equipment manufacturer (OEM) for export as a component of the manufacturer's exported product

- Selling to an export jobber/wholesaler

OBJECTIVE 5

Distinguish among advantages and disadvantages of direct and indirect exporting.

DIRECT EXPORTING

*A = Advantage; D = Disadvantage

A Gives the U.S. company greater control over pricing and sales

A Gives the U.S. company control over company/brand awareness and price in foreign markets

A Can help establish a closer relationship between the U.S. company and the foreign buyer and foreign market

A Can yield higher profits

A Allows the U.S. company to develop in-house expertise in the export process, including sales, financing and shipping

D Requires a greater commitment from the U.S. company in terms of personnel, financial, time and other resources

D May require internal changes in the company in order to support export sales activities

NOTE: Companies that are new to the export sales process usually manage export sales with **existing** resources used for domestic sales. As their export sales and experience increase, new exporters may decide to manage export sales and domestic sales **separately**.

INDIRECT EXPORTING

*A = Advantage; D = Disadvantage

A Reduces the manufacturer's commitment of personnel, time, and financial resources to the export sales process, as well as the risk associated with a greater commitment

A Provides immediate access to foreign markets through established networks of foreign sales agents, distributors, and customers

NOTE: An EMC or ETC can eliminate the expense and the time required for manufacturers to establish an international relationship by using their established networks.

A Can allow the manufacturer with limited experience and limited resources to penetrate foreign markets

A Can generate faster export sales by using established networks or handling complementary goods

A Allows the manufacturer to benefit from established expertise

D Can limit the manufacturer's control over marketing, selling, price and company/product reputation in foreign markets

D Might add service costs that can make export prices less competitive

EXAMPLE: Commissions or discounts to foreign sales agents, promotion and travel costs, costs of preparing export documents, and miscellaneous business expenses including telephone, telex, and postage charges

D Might focus sales efforts on higher-margin or other profit-generating or established goods at the expense of newer goods or goods with limited potential

EXAMPLE: Some of the foreign sales agents used by an EMC might already handle competing products.

D Might discourage foreign buyers hesitant about dealing through anyone other than the manufacturer

D Can yield lower profits

OBJECTIVE 6 **Describe differences between export sales and domestic sales.**

NOTE: The importance of these differences increases as your involvement in direct exporting increases.

Different buyers—Just as domestic sales require an understanding of the needs of U.S. buyers, export sales require a greater emphasis on understanding the needs and tastes of foreign buyers in specific target markets.

Different culture—Domestic sales involve different markets, but a common culture. However, exporters must meet the needs of their foreign customers as well as the requirements of their customers' unique culture.

Different distribution channels—Distribution channels for export sales are more complex than domestic channels, involving the movement of goods by land, air, or ocean and requiring the services of freight forwarders, foreign intermediaries, and others in the movement of the export goods between the U.S. manufacturer and the foreign buyer. Once the goods arrive in the foreign market, they must also move through the internal distribution system of the foreign country to the end-user. The internal distribution system in the foreign market can be more complex and difficult.

Different emphasis on communications—Greater distances, different time zones, and foreign languages and customs require the U.S. manufacturer to recognize and account for these differences in spoken and written communications.

Different business environment—You must work within foreign business practices, different negotiation strategies, foreign tax systems and government laws and regulations, foreign currencies, and different methods of transportation in foreign markets.

Different terms of payment and collection—You may have to extend different credit and collection terms to foreign buyers than to domestic buyers, and you may require financing for your export activities. Payment often takes longer, depending on agreed-upon terms, the greater time needed for transportation, possible currency exchange problems, specific legal restraints in foreign countries, and other reasons unique to export sales.

Different product/service requirements—Goods and services for export may have to be modified to meet the needs of the foreign market.

EXAMPLE: Conversions for metric measurements, foreign electrical and other standards, or alternative uses or customs in the foreign market

Different emphasis on after-sales service—The quality of after-sales service may distinguish your goods from those of competitors, allowing you to establish a position in the foreign market. You may also have to emphasize after-sales service because of a lack of foreign expertise or service availability in the foreign market.

OBJECTIVE 7

Compare exporting with other forms of international business.

Indirect exporting—Selling to foreign markets by allowing an outside firm to act as the manufacturer's "export department." The outside firm could act as a representative of the manufacturer without taking title to the goods, or the outside firm could take title to the manufacturer's goods and export the goods on its own behalf (eliminating some of the risks for the manufacturer).

Direct exporting—Selling to foreign markets by assuming responsibility within the manufacturer's company for all aspects of the export sale, including researching the target markets, identifying foreign buyers, and handling documentation and shipping requirements. You sell directly to foreign retailers, to foreign end-users, or through foreign intermediaries by mutual agreement.

NOTE: Foreign intermediaries often include a foreign distributor or sales agent.

Foreign sales office—Selling to foreign markets by opening and operating a branch office in the foreign market. A foreign sales office can be very expensive to maintain. The costs of office space, employee salaries, and other operating costs must be justified by the foreign demand for the goods.

Licensing technology—Selling or otherwise making available—by contract—patents, trademarks, service marks, copyrights, or expertise to a licensee in return for a negotiated compensation, usually in the form of royalties. The licensing agreement can allow the foreign company to assemble the product, manufacture the product, or both, then sell the goods to countries authorized in the agreement. Licensing technology can allow the U.S. manufacturer to enter a market quickly; requires less of an investment (and less financial risk); provide market access regardless of many tariff and nontariff barriers; demand less management time from the U.S. manufacturer; and allow the U.S. manufacturer to control the licensed technology without the financial and personnel resources needed to maintain the manufacturer's own employees in the foreign market. However, it also usually reduces profits compared with joint ventures or foreign manufacturing facilities; may reduce your control over the licensed technology (depending on the type of agreement) due to its transfer to an outside firm; may not adequately protect the licensed technology in the foreign market; and can create a new competitor if the foreign licensee uses the licensed technology to produce or sell goods in competition with your company.

Wholly-owned branch or subsidiary operations—Operating through a branch or subsidiary that is owned completely by the U.S. manufacturer, either through buying an existing facility in the foreign market or building a new facility. Wholly-owned branch or subsidiary operations give your company complete control over production and sales in the foreign market; do not involve shared profits; allow the U.S. manufacturer to operate consistent with its own export objectives, subject to foreign legal limits; provide for a "safer" transfer of technology than is possible when licensing technology to an "outside" firm; and allow the U.S. manufacturer to fully benefit from any foreign investment, tax, or other incentives for establishing manufacturing facilities in the foreign country. The disadvantage is the substantial investment required from the U.S. manufacturer in the foreign country, along with the financial risks associated with that investment.

International joint venture—Doing business in a foreign market by agreement with a foreign company in that market, often involving technology licensing, with each party contributing its expertise for the benefit of the joint operation. A joint venture requires less financial commitment by spreading the costs and risks of the foreign operation; allows the U.S. firm to benefit from the foreign company's strengths, expertise, and contacts in the market; and helps the U.S. company appear less "foreign" in the market. However, it may also lessen your managerial control through shared control, possibly resulting in poor product quality, higher operating costs, and exposure to product liability and other legal problems; reduces the profit potential through shared profits; and can create a new competitor.

NOTE: Some foreign countries may require that a specific percentage of certain operations be owned by nationals of that country, requiring the U.S. manufacturer to enter the market through a joint venture. Your company may also have its own reasons for operating though a joint venture agreement.

OBJECTIVE 8

Describe factors affecting the growth of U.S. exports.

Foreign currency values—When the value of a foreign currency rises compared to the U.S. dollar, the increase in value will improve the position of your goods in the foreign market by lowering the cost of the goods and making them more price-competitive. A decrease in the value of a foreign currency against the dollar will have the opposite effect, making your goods more expensive and less competitive in price in the foreign market.

Foreign economic growth—A strong foreign economy can result in a greater demand for imported goods in that foreign market. If U.S. goods are price-competitive in the foreign market when demand for the goods increases, then the export of these goods from the U.S. could also increase. When a foreign economy is not growing, or is growing very slowly, then the demand for U.S. goods in the foreign market might stay the same or decrease, whether or not the goods are price-competitive in the market.

Domestic productivity levels—As your productivity increases, you may be able to reduce prices or postpone price increases while still being able to cover the costs of production and profit margins. Lower levels of productivity could force you to increase prices in order to cover your costs, reducing the price-competitiveness of your goods in foreign markets.

Labor costs—When your labor cost per unit decreases, then the price of your goods can also decrease to reflect the lower cost. If your labor cost per unit increases, then the price of your goods will increase to reflect the higher cost.

Product quality—Improvements in technology, reliability, servicing and delivery can improve the competitive position of your goods in foreign markets.

NOTE: Other factors also affect the growth of U.S. exports. Changes in the U.S. inflation rate can reduce or improve the price-competitiveness of U.S. goods in foreign markets. High levels of manufacturing investment, together with advances in technology, have helped improve U.S. productivity and product quality, making U.S. goods more attractive in foreign markets.

OBJECTIVE 9 **Identify benefits of increases in U.S. exports.**

Higher profits—As with domestic prices, prices for export goods include a profit component for the U.S. manufacturer. Increased export sales therefore result in higher profits.

Higher economic growth—Improved export sales can help the U.S. economy to grow by making up for slower growth in other areas of the economy.

Higher U.S. employment—Export sales create jobs. When export sales increase, the increased foreign demand can create the need for more workers directly and indirectly related to the export goods in production, shipping, service and other areas.

Lower trade deficit—A trade deficit results when the United States imports more than it exports. Therefore, higher levels of U.S. export sales can reduce the trade deficit.

OBJECTIVE 10 **List common export objectives.**

- To increase total sales volume
- To maximize existing advantages in untapped markets
- To distribute fixed costs over a higher volume
- To improve overall return on investment
- To compensate for seasonal fluctuations in domestic sales
- To find new markets for products with declining domestic sales
- To contribute to the company's general expansion

- To use excess production capacity
- To counteract the effects of foreign companies competing for U.S. market share
- To learn about international competition
- To test the opportunities for increasing levels of involvement in international business
- To learn about advanced technical methods used in foreign markets
- To follow domestic competitors selling in foreign markets

IMPORTANT: The decision to export should be based on the situation of each exporter. The basis for a competitor's decision to export may not support your own decision.

OBJECTIVE 11

Distinguish among common risks and common mistakes in exporting.

NOTE: Risks can always be present, but mistakes can be prevented.

COMMON RISKS

- Inability to support the export market demand using existing production and inventory capacity
- Interference with your domestic product development

EXAMPLE: Required product or packaging modifications for export could fragment your product line to the extent that the development of domestic products is affected by the development of export products.

- Possible loss of economies of scale resulting from a fragmentation of your product line
- Inability to support the costs of "new" production periods

EXAMPLE: U.S. companies might consider exporting to compensate for seasonal fluctuations in domestic sales. However, export sales alone might not be able to support the labor costs, production costs, and other costs incurred during the added production cycle or season.

- Inability to support the expansion required by export sales
- Inability to finance orders

COMMON MISTAKES

- Failing to get qualified export counseling and to develop a master international marketing plan **before** starting an export operation
- Not having enough commitment by top management needed to overcome the initial difficulties and financial requirements of exporting
- Failing to select foreign representation carefully
- Chasing orders from around the world instead of establishing a basis for profitable operations and orderly growth
- Neglecting export operations when your domestic market booms
- Treating international distributors unequally compared with their U.S. counterparts
- Assuming that a product or marketing plan will automatically succeed in all countries
- Failing to modify products to meet the needs or requirements of foreign markets

  EXAMPLE: Exporting U.S. goods "as is" simply to get rid of excess inventory, without considering the needs of the foreign market

- Printing sales, service, and warranty messages in languages not understood in the foreign market
- Failing to consider using an export management company (EMC)
- Providing poor after-sales service

  NOTE: The quality of your service after the sale may distinguish your name and your goods from competitors in foreign markets.

OBJECTIVE 12

Match basic export activities with common tasks associated with each.

Researching the market—You must identify, prescreen, and assess potential foreign target markets before committing your resources to export sales. Thorough market research can help you evaluate your export opportunities and design a product-specific and market-specific marketing plan. This activity can include assessing statistical market potential for the goods, buyer characteristics, economic indicators, methods of payment and collection, special product or service requirements, channels of distribution, competitive position, restrictions and market barriers, property rights protection, documentation and shipping requirements, and other considerations.

Preparing the marketing plan—After conducting market research activities and identifying promising target markets, you should design a product-specific and market-specific plan before committing additional time, financial, and personnel resources to export operations. A marketing plan should reflect the results of your market research and should be consistent with your company's stated export goals. A comprehensive marketing plan can help maximize return on investment and should clearly outline your company's export objectives, target markets, product and service requirements, required in-house and outside resources, pricing strategies, promotion strategies, potential channels of distribution, schedules for implementing the marketing plan using available resources, and other points.

Planning for distribution and promotion—After designing a marketing plan, you must decide (1) whether you will export directly or indirectly, then (2) which channel of distribution to use to move the goods to foreign markets. This activity includes assessing in-house resources and capabilities, defining the needs of the market and the product, and investigating the services and qualifications of any needed foreign representation, including EMCs. Evaluating foreign representation should include visits to the potential foreign representatives and their facilities. In addition, you should consult with Department of Commerce trade specialists to plan promotion events aimed at attracting foreign buyers and foreign representatives for the channel of distribution.

Determining options for financing, payment and collection—This activity includes assessing and anticipating the potential risks in the export sale, such as commercial credit risks, political risks, and documentary risks. In addition, you must determine the best terms of sale for your firm and for the foreign buyer, obtain any needed financing for export activities, determine acceptable options for payment and collection, and price the export goods uniquely for each foreign market.

Documenting the sale and shipment—This activity includes collecting and organizing data to complete documents required for shipping or to satisfy payment and collection terms, preparing the goods for different modes of transportation, and obtaining any needed insurance for the goods in-transit. You may also have to complete and track applications for export licenses for specific shipments or goods.

Considering regulatory and legal issues—You must investigate the scope and application of all laws and regulations affecting export sales, as well as the penalties for noncompliance. These include U.S. export regulations, specific laws in target markets, antiboycott legislation, and other sources of regulation and protection. Preparing for regulatory and legal issues also involves designing in-house regulatory compliance programs and protecting intellectual property rights, among other activities.

Establishing export operations—You should establish your export department consistent with your firm's export objectives. This activity includes defining the functions of the export department and its personnel, preparing a budget, committing needed resources to export operations, and obtaining basic publications, equipment, and supplies.

COMMON QUESTIONS FOR EVALUATING INDIRECT EXPORT SERVICES

Q Have they dealt with similar exporters and can they provide references?

Q What markets do they serve?

Q Do they specialize by geography, industry or other?

Q Do they take inventory, or commission?

Q Are they accepted in the target market?

NOTE: In some foreign markets, buyers may be hesitant about dealing through sales intermediaries, including EMCs, because of the costs added to the export price and because the buyer might perceive a lack of product-specific expertise on the part of the intermediary.

Q Do they have the resources needed to handle the goods?

EXAMPLE: Financial resources, personnel, facilities, contacts, expertise

Q Do they handle competitive goods that could affect the handling of your goods?

NOTE: If the foreign sales agents used by the provider already handle competing products, be sure that the provider has other contacts or can develop new contacts.

Q Are they willing and able to comply with any special requirements or needs, such as reporting or other requirements?

Q Do they deal with markets in Canada?

NOTE: Some providers neglect Canadian markets, possibly thinking of Canada as a "domestic" market due to the short distance and special trade relationship between Canada and the United States. However, Canada is America's largest trading partner and should be considered with any other foreign markets.

Q Are they willing to receive and provide any special training?

CHECKLIST OF EXPORT OBJECTIVES

DIRECTIONS

- Carefully review the export objectives in the checklist.

- In the VALUE column, place a 1, 2 or 3 in the space beside each objective to show the value of the objective to your company.

  In the RANK column, rank all objectives that have a VALUE of 1 or 2 in order from most important to least important. Use a 1 for most important, 2 for second most important, etc.

- Use your completed checklist when needed to help plan your company's export operations.

CHECKLIST OF EXPORT OBJECTIVES

VALUE RATINGS:
1 = Very important to my company
2 = Important to my company
3 = Not important to my company

VALUE RANK

____ ____ • To increase total sales volume

____ ____ • To maximize existing advantages in untapped markets

____ ____ • To distribute fixed costs over a higher volume

____ ____ • To improve overall return on investment

____ ____ • To compensate for seasonal fluctuations in domestic sales

____ ____ • To find new markets for products with declining domestic sales

____ ____ • To contribute to the company's general expansion

____ ____ • To use excess production capacity

____ ____ • To counteract the effects of foreign companies competing for U.S. market share

____ ____ • To learn about international competition

____ ____ • To test the opportunities for increasing levels of involvement in international business

____ ____ • To learn about advanced technical methods used in foreign markets

____ ____ • To follow domestic competitors selling in foreign markets

____ ____ • ____

____ ____ • ____

____ ____ • ____

ASSIGNMENT
1

INTRODUCTION TO EXPORTING

1

Name ______________________________ Score __________

OBJECTIVE 13 **Assess the need for exporting.**

DIRECTIONS

- Given the following situation and information about the "XYZ Company", write a letter to XYZ's management supporting the need for the company to consider exporting. Not all of your arguments must come from the given information.
- Type your final draft letter.

THE SITUATION

You are a domestic sales manager for the XYZ Company, a manufacturer of control valves. You have been with the company for the past six years and helped to prepare the most recent Strategic Plan for the company. One of the objectives identified in the Strategic Plan is to explore export sales and, if feasible, to organize in-house export activities. Your immediate supervisor has just asked you to prepare a letter to company management outlining the basis for considering export sales.

XYZ COMPANY—SUMMARY OF OPERATIONS

- Domestic sales have generated a profit during each of the past six years.
- Domestic sales sustain a current production capacity of 85% of total capacity.
- The XYZ Company has no previous export sales.
- Operating and production costs have increased steadily over the past five years.
- Domestic sales volume has declined for various reasons over the past five years and appears to have leveled out for the past two years.
- The pace of sales activity per sales quarter has been consistent. (See Figure 1.)
- Control valves manufactured by XYZ Company could have similar applications in markets outside the United States, based on information from domestic suppliers, buyers, trade publications and other sources.
- XYZ Company has recently received an overseas inquiry from a foreign distributor, requesting information about the XYZ product line.

FIGURE 1
5-Year Quarterly Sales Record
(in thousands of units)

SALES YEAR	QUARTER (Q)				
	Q1	Q2	Q3	Q4	TOTAL
Year 1	22.2	23.4	19.1	22.4	87.1
Year 2	21.4	22.1	18.0	20.3	81.8
Year 3	20.9	21.7	18.2	20.5	81.3
Year 4	19.0	20.4	17.0	19.8	76.2
Year 5	20.1	21.2	17.6	21.3	75.2

LETTER TO MANAGEMENT OF XYZ COMPANY
"Why XYZ Company Should Consider Exporting"

____________________:

LETTER TO MANAGEMENT OF XYZ COMPANY

LETTER TO MANAGEMENT OF XYZ COMPANY

ASSIGNMENT ANSWERS

INTRODUCTION TO EXPORTING

1

ASSIGNMENT 1

Evaluated to instructor's satisfaction.

QUICK CHECK

INTRODUCTION TO EXPORTING 1

Name ______________________________ Score __________

OBJECTIVE 1

Define exporting.

____

____

OBJECTIVE 2

Distinguish between direct and indirect exporting. Write "direct" or "indirect" below each description.

The U.S. company establishes complete responsibility for the export process within the company, including researching the market, establishing distribution networks, performing exporting functions, and servicing the market

1. ____

The U.S. company assumes partial responsibility for and has limited control over the export sales process by appointing another company to locate foreign buyers and ship its goods for export, or by selling its goods to another company, which in turn exports the goods

2. ____

OBJECTIVE 3

Match terms associated with direct and indirect exporting with their correct definitions. Write the correct letter in each blank.

____ 1. A trading company authorized and controlled by a foreign government, through which export sales must be made

____ 2. The network of firms or individuals through which a U.S. company exports its goods to foreign markets

____ 3. Contact from a potential foreign buyer

____ 4. A foreign representative who procures business for and on behalf of the U.S. principal, usually for a commission, but does not buy and sell goods for its own account

a. Channel of distribution

b. Choice of law/governing law

c. Foreign distributor

d. Foreign government-controlled trading company

e. Foreign inquiry

____5. A foreign representative who buys and sells export goods for its own account and resells the goods for a profit

____6. The U.S. company when it appoints a foreign representative

____7. In contracts between U. S. companies and foreign representatives, the U.S. company's specification in the contract that the contract will be governed under the laws of a U.S. state

____8. A private or government-sponsored company (such as by a state government) established by a group of producers in a common industry for coordinated export operations; is exempt from U.S. antitrust laws for the purpose of foreign competition; its functions generally include export sales, shipping, financing, distribution, promotion and other areas

____9. A company that facilitates sales between U.S. companies and foreign buyers; performs the services of an "export department" for its client companies through its own established networks of foreign sales agents, distributors, and customers, and either buys and resells the client company's goods or receives a commission on sales; its functions generally include export sales, shipping, financing, distribution, promotion and other areas; can specialize by geography or industry

___10. A domestic company that buys and takes title to a U.S. manufacturer's goods, then sells the goods to its own foreign buyers

f. Foreign sales agent

g. Export management company (EMC)

h. Export trading company (ETC)

i. Export jobber/wholesaler

j. Principal

OBJECTIVE 4

Distinguish among methods of direct and indirect exporting. Write a "D" in the blank beside each method of direct exporting and an "I" beside each method of indirect exporting.

____ 1. Selling to the U.S. buying offices of large foreign firms or foreign governments

____ 2. Selling directly to foreign end-users

____ 3. Selling to an original equipment manufacturer (OEM) for export as a component of the manufacturer's exported product

____ 4. Selling to an export jobber/wholesaler

____ 5. Selling to foreign government-controlled trading companies

____ 6. Appointing an export management company (EMC) or an export trading company (ETC) to act as the "export department" for your company

____ 7. Selling through representatives such as foreign sales agents or "selling agents," foreign distributors and others

____ 8. Selling to foreign retailers

____ 9. Selling to U.S. companies for export through their own foreign distribution channels ("piggyback")

OBJECTIVE 5

Distinguish among advantages and disadvantages of direct and indirect exporting. Write a "D" or an "I" in the blank beside each advantage or disadvantage.

____ 1. Can generate faster export sales by using established networks or handling complementary goods

____ 2. Reduces the manufacturer's commitment of personnel, time, and financial resources to the export sales process, as well as the risk associated with a greater commitment

____ 3. Provides immediate access to foreign markets through established networks of foreign sales agents, distributors, and customers

____ 4. Can help establish a closer relationship between the U.S. company and the foreign buyer and foreign market

____ 5. Can allow the manufacturer with limited experience and limited resources to penetrate foreign markets

____ 6. Gives the U.S. company greater control over pricing and sales

____ 7. Gives the U.S. company control over company/brand awareness and price in foreign markets

____ 8. Allows the U.S. company to develop in-house expertise in the export process, including sales, financing and shipping

____ 9. Requires a greater commitment from the U.S. company in terms of personnel, financial, time and other resources

___ 10. Can limit the manufacturer's control over marketing, selling, price and company/product reputation in foreign markets

___ 11. Might add service costs that can make export prices less competitive

___ 12. Might focus sales efforts on higher-margin or other profit-generating or established goods at the expense of newer goods or goods with limited potential

___ 13. May require internal changes in the company in order to support export sales activities

___ 14. Might discourage foreign buyers hesitant about dealing through anyone other than the manufacturer

___ 15. Can yield lower profits

___ 16. Can yield higher profits

___ 17. Allows the manufacturer to benefit from established expertise

OBJECTIVE 6

Describe differences between export sales and domestic sales. Choose four (4) of the differences and briefly describe each.

1. ____

____

____

____

2. ____

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____

3. ____

____

____

____

4. ____

____

____

____

OBJECTIVE 7

Compare exporting with other forms of international business. Write the correct letter in each blank.

____ 1. Which form of international business involves opening and operating a branch office in the foreign market?

____ 2. Which form of international business involves selling to foreign markets by assuming responsibility within the company for all aspects of the export sale?

____ 3. With which form of international business is a substantial investment required from the U.S. manufacturer in the foreign country?

____ 4. With which form of international business does the U.S. company sell to foreign markets by allowing an outside firm to act as the manufacturer's "export department?"

____ 5. Which form of international business can allow a foreign company to assemble and/or manufacture the product, then sell the goods to countries authorized in the agreement?

a. Indirect exporting
b. Direct exporting
c. Foreign sales office
d. Licensing technology
e. Wholly-owned branch or subsidiary operations
f. International joint venture

____6. Which form of international business requires less financial commitment by spreading the costs and risks of the foreign operation, allows the U.S. firm to benefit from the foreign company's strengths, expertise, and contacts in the market, and helps the U.S. company appear less "foreign" in the market?

____7. In which form of international business does the U.S. firm have less control over its technology due to transfer of the technology to an outside firm (by contract)?

____8. Which form of international business can be very expensive to maintain, involving costs such as office space, employee salaries, and other operating costs that must be justified by the foreign demand for the goods?

OBJECTIVE 8

Describe factors affecting the growth of U.S. exports. Choose three (3) factors and briefly describe each.

1. ____
____
____
____

2. ____
____
____
____

3. ____
____
____
____

OBJECTIVE 9

Identify benefits of increases in U.S. exports. Write an "X" in the blank beside each benefit.

____ 1. Higher profits

____ 2. Higher economic growth

____ 3. Higher trade deficit

____ 4. Higher U.S. employment

OBJECTIVE 10

List common export objectives. List eight (8) common export objectives.

1. ______________________________

2. ______________________________

3. ______________________________

4. ______________________________

5. ______________________________

6. ______________________________

7. ______________________________

8. ______________________________

OBJECTIVE 11

Distinguish among common risks and common mistakes in exporting. Place an "R" in the blank beside each common risk and an "M" beside each common mistake.

____ 1. Inability to support the export market demand using existing production and inventory capacity

____ 2. Failing to select foreign representation carefully

____ 3. Not having enough commitment by top management needed to overcome the initial difficulties and financial requirements of exporting

____ 4. Neglecting export operations when your domestic market booms

____ 5. Interference with your domestic product development

____ 6. Possible loss of economies of scale resulting from a fragmentation of your product line

____ 7. Treating international distributors unequally compared with their U.S. counterparts

____ 8. Inability to support the costs of "new" production periods

____ 9. Inability to support the expansion required by export sales

___ 10. Failing to modify products to meet the needs or requirements of foreign markets

OBJECTIVE 12

Match basic export activities with common tasks associated with each. Write the correct letter in each blank.

____1. Can include assessing statistical market potential for the goods, buyer characteristics, economic indicators, methods of payment and collection, special product or service requirements, channels of distribution, competitive position, restrictions and market barriers, property rights protection, documentation and shipping requirements, and other considerations.

____2. Involves designing in-house regulatory compliance programs and protecting intellectual property rights, among other activities.

____3. Can help maximize return on investment and should clearly outline your company's export objectives, target markets, product and service requirements, required in-house and outside resources, pricing strategies, promotion strategies, potential channels of distribution, schedules for implementing the marketing plan using available resources, and other points.

____4. Includes collecting and organizing data to complete documents required for shipping or to satisfy payment and collection terms, preparing the goods for different modes of transportation, and obtaining any needed insurance for the goods in transit. Can also involve completing and tracking applications for export licenses for specific shipments or goods.

a. Researching the market

b. Preparing the marketing plan

c. Planning for distribution and promotion

d. Determining options for financing, payment and collection

e. Documenting the sale and shipment

f. Considering regulatory and legal issues

g. Establishing export operations

____ 5. Can also include visiting potential foreign representatives and their facilities.

____ 6. Includes assessing and anticipating the potential risks in the export sales, such as commercial credit risks, political risks, and documentary risks.

____ 7. Includes determining the best terms of sale for your firm and for the foreign buyer, obtaining any needed financing for export activities, determining acceptable options for payment and collection, and pricing the export goods uniquely for each foreign market.

____ 8. Includes investigating the scope and application of all laws and regulations affecting export sales, as well as the penalties for noncompliance.

____ 9. Can include assessing in-house resources and capabilities, defining the needs of the market and the product, and investigating the services and qualifications of any needed foreign representation, including EMCs.

___ 10. Includes defining the functions of the export department and its personnel, preparing a budget, committing needed resources to export operations, and obtaining basic publications, equipment, and supplies.

NOTICE The objectives listed below are not part of the Quick Check.

OBJECTIVE 13 **Assess the need for exporting.** SCORE _______

QUICK CHECK ANSWERS

INTRODUCTION TO EXPORTING 1

OBJECTIVE 1

Exporting — The direct or indirect sale of goods or services to foreign markets.

OBJECTIVE 2

1. Direct
2. Indirect

OBJECTIVE 3

1. d
2. a
3. e
4. f
5. c
6. j
7. b
8. h
9. g
10. i

OBJECTIVE 4

1. I
2. D
3. I
4. I
5. D
6. I
7. D
8. D
9. I

OBJECTIVE 5

1. I
2. I
3. I
4. D
5. I
6. D
7. D
8. D
9. D
10. I
11. I
12. I
13. D
14. I
15. I
16. D
17. I

OBJECTIVE 6

Any four of the following:

Different buyers—Just as domestic sales require an understanding of the needs of U.S. buyers, export sales require a greater emphasis on understanding the needs and tastes of foreign buyers in specific target markets.

Different culture—Domestic sales involve different markets, but a common culture. However, exporters must meet the needs of their foreign customers as well as the requirements of their customers' unique culture.

Different distribution channels—Distribution channels for export sales are more complex than domestic channels, involving the movement of goods by land, air, or ocean and requiring the services of freight forwarders, foreign intermediaries, and others in the movement of the export goods between the U.S. manufacturer and the foreign buyer. Once the goods arrive in the foreign market, they must also move through the internal distribution system of the foreign country to the end-user. The internal distribution system in the foreign market can be more complex and difficult.

Different emphasis on communications—Greater distances, different time zones, and foreign languages and customs require the U.S. manufacturer to recognize and account for these differences in spoken and written communications.

Different business environment—You must work within foreign business practices, different negotiation strategies, foreign tax systems and government laws and regulations, foreign currencies, and different methods of transportation in foreign markets.

Different terms of payment and collection—You may have to extend different credit and collection terms to foreign buyers than to domestic buyers, and you may require financing for your export activities. Payment often takes longer, depending on agreed-upon terms, the greater time needed for transportation, possible currency exchange problems, specific legal restraints in foreign countries, and other reasons unique to export sales.

Different product/service requirements—Goods and services for export may have to be modified to meet the needs of the foreign market.

Different emphasis on after-sales service—The quality of after-sales service may distinguish your goods from those of competitors, allowing you to establish a position in the foreign market. You may also have to emphasize after-sales service because of a lack of foreign expertise or service availability in the foreign market.

OBJECTIVE 7

1. c
2. b
3. e
4. a
5. d
6. f
7. d
8. c

OBJECTIVE 8

Any three of the following:

Foreign currency values—When the value of a foreign currency rises compared to the U.S. dollar, the increase in value will improve the position of your goods in the foreign market by lowering the cost of the goods and making them more price-competitive. A decrease in the value of a foreign currency against the dollar will have the opposite effect, making your goods more expensive and less competitive in price in the foreign market.

Foreign economic growth—A strong foreign economy can result in a greater demand for imported goods in that foreign market. If U.S. goods are price-competitive in the foreign market when demand for the goods increases, then the export of these goods from the U.S. could also increase. When a foreign economy is not growing, or is growing very slowly, then the demand for U.S. goods in the foreign market might stay the same or decrease, whether or not the goods are price-competitive in the market.

Domestic productivity levels—As your productivity increases, you may be able to reduce prices or postpone price increases while still being able to cover the costs of production and profit margins. Lower levels of productivity could force you to increase prices in order to cover your costs, reducing the price-competitiveness of your goods in foreign markets.

Labor costs—When your labor cost per unit decreases, then the price of your goods can also decrease to reflect the lower cost. If your labor cost per unit increases, then the price of your goods will increase to reflect the higher cost.

Product quality—Improvements in technology, reliability, servicing and delivery can improve the competitive position of your goods in foreign markets.

OBJECTIVE 9

1, 2, 4

OBJECTIVE 10

Any eight of the following:

- To increase total sales volume
- To maximize existing advantages in untapped markets
- To distribute fixed costs over a higher volume
- To improve overall return on investment
- To compensate for seasonal fluctuations in domestic sales
- To find new markets for products with declining domestic sales
- To contribute to the company's general expansion
- To use excess production capacity
- To counteract the effects of foreign companies competing for U.S. market share
- To learn about international competition
- To test the opportunities for increasing levels of involvement in international business
- To learn about advanced technical methods used in foreign markets
- To follow domestic competitors selling in foreign markets

OBJECTIVE 11

1. R
2. M
3. M
4. M
5. R
6. R
7. M
8. R
9. R
10. M

OBJECTIVE 12

1. a
2. f
3. b
4. e
5. c
6. d
7. d
8. f
9. c
10. g

UNIT OBJECTIVES

EXPORT POTENTIAL

2

INTRODUCTION

An important early step for new-to-export or new-to-market companies is evaluating the export potential of both the company and the company's goods or services. This step is essential to determine the feasibility of exporting, to identify strengths and weaknesses related to the company and its product or service for export, to distinguish between an "assumed" export potential and the true export potential, and to initiate and build support for company export activities. Evaluating export potential involves consideration of domestic and foreign sales activity, the suitability of the goods or service for foreign markets, production, in-house and outside resources, company strategy and commitment, and other factors.

UNIT OBJECTIVE

After completing this unit, you should be familiar with some basic requirements for exporting and considerations for evaluating the export potential of a company and its goods or services. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you should be able to

1. Describe basic requirements for exporting.
2. List reasons for evaluating export potential.
3. State considerations for evaluating export potential.
4. Match export assistance sources with their descriptions.
5. State the word(s) represented by common abbreviations and acronyms related to exporting.
6. Review common abbreviations and acronyms related to exporting. (Assignment 1)

PREPARATION

- Order additional materials to supplement this unit.

  Publications

  - *A Basic Guide to Exporting* (Current edition). Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; or contact Department of Commerce district offices.

  NOTE: Also see the Unit References.

- Review the unit and plan your presentation:
  - Estimate the amount of material that can be covered in each class session.
  - Plan for appropriate Assignments.
  - Identify objectives that you can supplement with other resources.
  - Invite guest speakers in advance.

    EXAMPLE: Area exporters, Department of Commerce specialists, or CITD specialists/analysts

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities in addition to the Assignments.

DELIVERY

Objective 1

- Explain how each basic requirement is important for successful export sales.

Objective 2

- Explain how a company's evaluation of its export potential could help the company determine the feasibility of exporting, identify product/service strengths and weaknesses for export, and distinguish between assumed and true export potential.

Objective 3

- Discuss how careful evaluation of each consideration can help each company create a picture of its export potential.

- Refer to Supplement 1 and Supplement 2.

Objective 4

- Emphasize the value of learning the "language of exporting," including relevant organizations.

- Refer to Supplement 3. Show examples of as many of the publications as possible, explain how to obtain major publications, and their importance as elements of an "export library" for each exporter. Distinguish among free and other publications.

- Check the descriptions of resource materials under the heading "Sources of Market Research" in the *Basic Guide to Exporting*, for more information about each publication, cost, etc.

- Make transparencies of selected pages from different publications, to show the information presented in each.

Objective 5

- With a few individual participants, confront the individual with a statement or a question that includes as many of these and other abbreviations and acronyms as possible. (Be sure your statements or questions make sense!) Then, ask the individual if he/she understands the statement or question. This "quiz" can help explain the importance of knowing common abbreviations and acronyms related to exporting.

- Show examples of written information that refers to common abbreviations and acronyms related to exporting.

- Introduce Assignment 1.

APPLICATION

Objective 6

- Complete the Assignment as an in-class or take-home activity after discussing the related objectives.

- Review the related objectives before completing the Assignment, if needed.

- Create additional Assignments, as needed, to reinforce the objectives and/or to meet the needs of participants.

EVALUATION

- Give the Quick Check soon after presenting the unit and after completing the Assignment.
- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- *A Basic Guide to Exporting*, U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service. September 1986.
- "IMAP" workshops (International Management Assistance Program), offered by the Center for International Trade Development (CITD), Oklahoma State University.
- "Fundamentals of Exporting" workshop, offered by Oklahoma International Export Services (OIES), a joint program of the Oklahoma Department of Commerce and the U.S. and Foreign Commercial Service of the U.S. Department of Commerce.

OBJECTIVE 1

Describe basic requirements for exporting.

Available goods or service—Potential exporters must have a current good or service available for export. One of the steps in determining the feasibility of export sales for a company is assessing the export potential of your goods or service.

Available financial, personnel, and other resources specifically for export sales—Export operations are different from domestic operations and require the allocation of company resources specifically for export sales. Potential exporters must have the personnel to handle assigned export responsibilities.

NOTE: Your pricing strategy for export goods should also reflect the unique costs incurred in providing the goods for foreign markets.

Strength in domestic markets—Companies that are successful in U.S. markets and that operate under sound business practices in the U.S. may have a good basis for managing export operations. Risks exist for all exporters. However, companies that are not successful in U.S. markets or that require substantial improvements in domestic operations may be increasing their risks of failure in export sales.

Long-term commitment—Developing profitable markets may require more time for export sales than for domestic sales. Sales may fail to meet expectations until the goods have an established niche in the foreign market. Therefore, a long-term commitment to export sales can pay off. A long-term commitment also means designing an export marketing plan covering a period of years. Companies having a short-term commitment to a business relationship in foreign markets, such as with a foreign distributor or other foreign representative, might not reach their potential in these markets.

IMPORTANT: Foreign markets are increasingly competitive. Companies having a short-term commitment to export sales, such as exporting to get rid of excess inventory, will sacrifice a long-term working relationship and market share in foreign markets for a short-term profit.

Organized approach—Export sales involve activities that are different from domestic sales. These activities include assessing the export potential of the company and the product, researching markets in foreign countries, designing an export marketing plan, preparing export documents, moving goods to foreign markets, and arranging for terms of payment and collection. An organized approach to these activities (and others) can help reduce the uncertainty about exporting and can help avoid problems in the export process.

Market research and intelligence—Market research is essential to designing a product-specific, market-specific plan for export sales. You must know your markets and the needs of each market. Market research and intelligence activities help you identify and evaluate possible target markets; assess market trends, conditions, and practices; provide a basis for an informed decision about market entry alternatives; and help to outline promising market entry strategies for specific target markets.

Flexibility—To succeed in foreign markets, the goods must fit the market. You must be flexible in meeting the special needs of foreign markets in terms of product modifications, pricing and terms of sale, channels of distribution, cultural and other requirements, terms of payment and collection, and other considerations.

OBJECTIVE 2 **List reasons for evaluating export potential.**

- To determine the feasibility of exporting
- To identify strengths and weaknesses related to the company and its product or service for export
- To distinguish between an "assumed" export potential and the true export potential
- To initiate and build support for company export activities

OBJECTIVE 3 **Identify considerations for evaluating export potential.**

Sales considerations—Analyzing past and present company sales activity in domestic and foreign markets, including competitive position and sales cycles

NOTE: Remember that a common export objective is to counteract the effects of foreign companies competing for U.S. market share.

Product considerations—Evaluating the availability and suitability of the goods and related literature for foreign markets, including life cycle and modifications

Production considerations—Evaluating current and anticipated production capacity, inventory space, and production costs

Resource considerations—Evaluating in-house and outside personnel, financial and other resources available to handle assigned export responsibilities

Strategic considerations—Assessing company strategies, including pricing and distribution, and the role of export sales

Commitment considerations—Defining the commitment of top management to export operations

FOR YOUR INFORMATION

Common questions for evaluating export potential

Sales considerations

Q What is the general sales activity in domestic markets?

Q Have you sold or are you selling to representatives in foreign markets such as export management companies, foreign agents and distributors, and others?

Q Are your goods being sold outside the United States?

Q Has your company received foreign inquiries about your goods or service?

Q Do domestic sales cycles exist?

Q Are you successful in domestic markets against foreign competitors?

Q What is the strength of competitors in foreign markets?

Product considerations

Q Is the good or service currently available in foreign markets?

Q Does demand exist in foreign markets?

Q Does the good have alternative uses in foreign markets?

Q Can exporting help you to extend the life cycle of the product?

Q Can the product be easily modified or adapted?

Q What are the product's vulnerabilities or sensitivities?

Q Is promotional and service literature suitable for foreign markets?

Production considerations

Q Does production capacity exist for export goods?

Q Is inventory space available for export goods?

Q What are the estimated costs for additional production?

Q What level of export sales is required for return-on-investment, cost distribution, break-even and profit?

FOR YOUR INFORMATION (Continued)

Resource considerations

Q Do you have in-house expertise for export operations?

Q Are outside consultants or advisors available?

Q What will be the role of the export department within the company, i.e., a separate export department or within the domestic sales department?

Q Is needed capital and financing available?

Q Do competing budget priorities and development plans exist that could influence export activities?

Q What are the sustainable minimum and maximum operating costs to the company for export operations?

Strategic considerations

Q Does your company have a basic company strategy?

EXAMPLE: Low volume, high margin; high volume, low margin; market sensitive

Q What is your pricing strategy and major pricing factors?

Q What is your distribution strategy?

Commitment considerations

Q How will export operations relate to domestic operations in terms of management and budget commitment?

Q How can exporting contribute to stated company goals and priorities?

Q What are your reasons for exporting?

Q Are you willing to adapt to the needs of export operations?

EXAMPLE: Use of foreign distributors or agents in the sales process; willingness to modify the product or service; release of pricing and other information to potential foreign buyers; extension of credit to potential foreign buyers

OBJECTIVE 4 **Match export assistance sources with their descriptions.**

Bureau of Export Administration (BXA)—The agency within the U.S. Department of Commerce responsible for developing export control policy, processing export license applications, determining the timing of decontrols, and enforcing U.S. export control laws; also includes the Office of Export Licensing (OEL), the office that processes applications for export licenses and that is responsible for granting or denying export licenses

Center for International Trade Development (CITD)—An export development center at Oklahoma State University that provides one-on-one training and offers assistance in evaluating product and company export potential, market research, marketing plans, establishing distributors, and creating special export sales programs

Clearing agent—Assists in clearing export shipments through customs; also called a "customs broker"

District Export Council (DEC)—A U.S. Department of Commerce program that offers new exporters direct contact with experienced exporters who serve without compensation, and supports Department of Commerce export workshops, seminars, and other informational programs

Export-Import Bank of the United States (EXIMBANK)—A source of federal government assistance for export financing through direct loans, loan guarantees, working capital loans and commercial credit risk insurance (through the Foreign Credit Insurance Association—FCIA)

Foreign Agricultural Service (FAS)—The agency within the U.S. Department of Agriculture (USDA) responsible for USDA export promotion activities—including counseling, promotional programs, and financing support—for exporters of agricultural commodities, livestock, and processed foods

NOTE: The Oklahoma Department of Commerce can provide access to FAS programs and services.

Freight forwarder—A specialized firm acting as an agent for the exporter in preparing export documents and contracting to ship export goods overseas

NOTE: Many freight forwarders also provide the services of a clearing agent.

International banking specialists—Experts at commercial banks offering international banking services such as trade financing, documentary credits, collection services, foreign exchange services, and export documentation assistance, among others

Oklahoma Export Assistance Program—A program coordinated by the Oklahoma Department of Vocational and Technical Education, in cooperation with the Department of Commerce, to assist Oklahoma companies with international contracting opportunities; provides procurement notices and the services of trained specialists who can assist in obtaining bid documents, listing firms on appropriate source lists, obtaining bid packs, locating and obtaining copies of international specifications or foreign trade regulations cited in bid packs, and informing businesses about the available services of state and federal agencies

Oklahoma International Export Services (OIES)—A joint program of the Oklahoma Department of Commerce (international division) and the U.S. Department of Commerce to counsel and assist Oklahoma exporters; one of the 48 DOC District Offices; assists exporters in identifying and evaluating overseas markets, contacting foreign representatives, preparing for and participating in promotion events, and other export-related services; also functions as a conduit for offering DOC/ITA/US&FCS international marketing information and programs and provides access to industry and country desk officers

Overseas Private Investment Corporation (OPIC)—A U.S. Government-owned corporation that offers specialized financing services, political risk insurance and other insurance options for exporters

Private Export Funding Corporation (PEFCO)—A private corporation owned by investors, mostly commercial banks, that provides medium- and long-term loans to foreign borrowers for buying U.S. goods and services, and can supplement the financing options provided by commercial banks or Eximbank

U.S. Small Business Administration (SBA)—Assists U.S. exporters through Field Offices by providing export counseling, sponsoring export training programs with the Department of Commerce, providing the Export Revolving Line of Credit (ERLC), loan guarantees, direct loans, and organizing contacts for legal advice

World trade associations—Local or regional associations of individuals and firms representing all aspects of international trade; meet to discuss topics of common interest to members and provide opportunities for exchanging export ideas, experiences, and advice

OBJECTIVE 5 **State the word(s) represented by common abbreviations and acronyms related to exporting.**

NOTE: This list is not comprehensive. Many of these abbreviations and acronyms are defined in later units of this book.

ADS	Agent/Distributor Service
ASEAN	Association of South East Asian Nations
AWB	Air waybill
B/L	Bill of lading
BXA	Bureau of Export Administration
C&F	Cost and Freight
CIF	Cost, Insurance, and Freight
CCL	Commodity Control List
CISG	United Nations Convention on Contracts for the International Sale of Goods
COCOM	Coordinating Committee on Multilateral Export Controls
D/A	Documents Against Acceptance
DEC	District Export Council
DOC	Department of Commerce
D/P	Documents Against Payment
EAR	Export Administration Regulations
ECCN	Export Control Commodity Number
EC	European Community
ETC	Export Trading Company
EMC	Export Management Company
EXIMBANK	Export-Import Bank of the United States
FAS	Free Alongside Ship or Foreign Agricultural Service
FCIA	Foreign Credit Insurance Association
FET	*Foreign Economic Trends*
FOB	Free On Board
FCPA	Foreign Corrupt Practices Act
FTA	Free Trade Agreement
FTZ	Free Trade Zone
GATT	General Agreement on Tariffs and Trade
GNP	Gross national product
HS	Harmonized System
IATA	International Air Transport Association
ICC	International Chamber of Commerce

ITA	International Trade Administration
L/C	Letter of credit
NTB	Nontariff barrier
NVOCC	Non-Vessel Operating Common Carrier
OAC	Office of Antiboycott Compliance
OBR	*Overseas Business Reports*
OECD	Organization for Economic Cooperation and Development
OEE	Office of Export Enforcement
OEL	Office of Export Licensing
OPIC	Overseas Private Investment Corporation
PEFCO	Private Export Funding Corporation
RO/RO	Roll-on/roll-off
SBA	Small Business Administration
S/D	Sight draft
SED	Shipper's Export Declaration
SIC	Standard Industrial Classification
SITC	Standard Industrial Trade Classification
STELA	System for Tracking Export License Applications
TSUSA	Tariff Schedules of the United States, Annotated
US&FCS	U.S. and Foreign Commercial Service
USDA	United States Department of Agriculture
WTDR	*World Trader's Data Reports*

GOALS STATEMENT

DIRECTIONS

- Briefly describe your company's overall goals and export goals. Consider your stated export objectives and be sure that company export goals do not conflict with overall company goals.
- Use this completed Supplement to help plan your company's export operations.

GOALS STATEMENT

1. What are your company goals for the next 1 year?

2. What are your company goals for the next 3 years?

GOALS STATEMENT

3. What are your company goals for the next 5 years?

4. How can international trade help your company to reach its goals?

GOALS STATEMENT

5. What are your company goals (general) for your first year in exporting?

6. What are your company export goals in terms of sales volume, profit and return-on-investment (ROI)?

	1 year	3 years	5 years
Sales volume	______	______	______
Profit	______	______	______
ROI	______	______	______

GOALS STATEMENT

7. Adapt your company export goals into measureable "milestones" including sub-goals, steps and/or activities to accomplish in order to reach overall export goals.

Month/Year	Sub-goals, steps, activities to accomplish

COMPETITIVE ASSESSMENT

DIRECTIONS

- Identify a major international competitor for your specific product for export in each foreign target market.
- Compare your company's actual or potential export sales with the competitor in each of the areas listed. Assess your company's competitive position in the foreign market by circling the appropriate number 1, 2 or 3 to the left of each area of comparison.
- Based on your assessment, identify your company's potential export strengths and areas for improvement.

COMPETITIVE ASSESSMENT

Product: ______________________________

Target market(s): ______________________________

Competitor (in the target market): ______________________________

____

1 = Competitive advantage
2 = Competitive equality (not an advantage or disadvantage)
3 = Competitive disadvantage

ASSESSMENT			AREAS FOR COMPARISON (Actual or potential)
1	2	3	• Market research capability
1	2	3	• Investment resources
1	2	3	• Engineering/design capability
1	2	3	• Standardization of components
1	2	3	• Manufacturing costs
1	2	3	• Industry expertise
1	2	3	• Product quality
1	2	3	• Product line/product mix: depth and breadth
1	2	3	• Financing
1	2	3	• Terms of sale
1	2	3	• Packaging
1	2	3	• Export price(s) in the target market
1	2	3	• Service after the sale
1	2	3	• Promotion
1	2	3	• Market share (%)
1	2	3	• Channel(s) of distribution/method(s) of foreign representation
1	2	3	• Image in the foreign target market(including reputation; time in business; quality of product, service and personnel, etc.)
1	2	3	• Availability of advertising/promotion materials (catalogs, sales literature, brochures, service manuals, etc.)
1	2	3	• Shipping costs
1	2	3	• Physical location/market presence
1	2	3	• Political ties to the target market (if apply)
1	2	3	• Common market ties to the target market (if apply)

COMPETITIVE ASSESSMENT

Competitive strengths:

Potential areas for improvement:

SOME BASIC EXPORT REFERENCE PUBLICATIONS*

DEPARTMENT OF COMMERCE (DOC)

A Basic Guide to Exporting—The basic export text that identifies important export decisions, the knowledge needed to make them, and where to find export information; also discusses specific aspects of exporting, including how to prepare for the sale, how to make the sale, and how to follow-up on the sale

Foreign Economic Trends (FETs)—Discusses the current business and economic developments in specific countries; also describes economic indicators such as GNP, inflation, levels of foreign trade and others; updated annually or semi-annually by U.S. embassies (depending on the value of the country as a trading partner)

Overseas Business Reports (OBR)—Offers a general overview of the business conditions in a specific country, including current marketing information, banking and credit policies, trade regulations and transportation requirements, trade forecasts, distribution and sales channels, and economic/commercial profiles of industrialized and developing countries; also reports selected statistics on the direction, volume and nature of U.S. foreign trade with specific countries, by commodity groups; prepared by the DOC/ITA Country Specialists; includes a semi-annual outlook for U.S. trade with countries and regions

Export Administration Regulations—The text of U.S. export regulations, including interpretations, instructions, examples and supplements; useful for learning whether a product requires a validated export license and for complying with applicable regulations

Business America magazine—A magazine of international trade covering current events and issues relating to U.S. foreign trade; available as an annual subscription

NOTE: Each issue also includes articles about specific topics in exporting, useful for current and potential exporters, written by specialists in each topic area.

Country Market Profiles—Single-country, multi-industry reports of trade statistics and economic and market analysis; includes trade contacts; available from US&FCS district offices

*This list is not comprehensive.

CENTER FOR INTERNATIONAL TRADE DEVELOPMENT (CITD)

Oklahoma Export Services Directory—Identifies private and public sector providers of export services, emphasizing local providers; refers to specific organizations and businesses, describes their export services, and gives contact persons and addresses

Trade Digest—A monthly newsletter covering current activities and developments relating to export issues, such as export regulations and legislation, export marketing, and export finance; also reports on people in the news and developments in specific countries

Data Sheets—A brief discussion of a single export topic

EXAMPLE: Trade data classification systems, the economic incentive for metrication, and others

U.S. DEPARTMENT OF STATE

Background Notes—Pamphlets providing short (4-12 page) summaries about the economy, people, history, culture, government, foreign relations and other facts relating to specific countries; also discuss official relations with the United States; available by annual subscription

BUREAU OF NATIONAL AFFAIRS (BNA)

Export Shipping Manual—Provides current country-by-country shipping information, including tariff systems, import and exchange controls, and other details

BUSINESS INTERNATIONAL CORPORATION

Investing, Licensing, and Trading Conditions Abroad—A basic volume with monthly updates

INTERNATIONAL CHAMBER OF COMMERCE (ICC)

ICC Incoterms: International rules for the interpretation of trade terms (ICC publication No. 350)—Explains the risks and obligations of the buyer and the seller, including costs, under various terms of sale

Guide to Incoterms (ICC publication No. 354)—Uses diagrams to illustrate the obligations of the buyer and the seller under various Incoterms

DUN'S MARKETING SERVICES

Exporter's Encyclopaedia—A detailed export handbook covering market information individually for hundreds of world markets

OTHER PUBLICATIONS

Journal of Commerce Export Bulletin—A weekly newspaper reporting on port and shipping activities, including a "trade prospects" column listing merchandise offered and wanted

Ports of the World—A Guide to Cargo Loss Control—Published by the Insurance Company of North America, describes the facilities and conditions in selected world ports and offers guidelines for cargo loss control

Name ______________________________ Score __________

OBJECTIVE 6

Review common abbreviations and acronyms related to exporting.

INTRODUCTION

Abbreviations are **shortened forms** of a written word or group of words made by leaving out letters from one or more words. Acronyms are **words** made from the first letter(s) of the different words in a series. The "language of exporting" includes many abbreviations and acronyms that you will see in print and hear in conversation. Knowing these common abbreviations and acronyms can help you communicate more effectively with people involved in different aspects of export sales. You can also more easily understand the information that you obtain from different export resources, such as export-related publications and professionals in the fields of international banking, freight forwarding, regulatory and legal issues, and other areas.

This Assignment cannot represent all of the possible abbreviations and acronyms related to exporting. However, it does include many of the most common.

DIRECTIONS

- Write the word or group of words represented by each abbreviation or acronym.
- Write the abbreviation or acronym for each word or group of words.

1. ADS— ____

____

2. Association of South East Asian Nations— ______________
3. AWB—____
4. B/L— ____
5. Bureau of Export Administration— ____________________
6. Cost and Freight—__________________________________
7. CIF— ____
8. CCL— ____
9. United Nations Convention on Contracts for the International Sale of Goods—

____

10. Coordinating Committee on Multilateral Export Controls —

____

11. D/A—____
12. DEC— ____
13. DOC— ____
14. Documents Against Payment— ________________________
15. EAR— ____
16. Export Control Commodity Number—___________________
17. EC—____
18. ETC— ____
19. EMC— ____
20. Export-Import Bank of the United States— ______________
21. FAS—____
22. Foreign Credit Insurance Association— ________________
23. FET—____
24. FOB— ____
25. FCPA— ____

26. FTA— ______________________________

27. Free Trade Zone— ______________________________

28. GATT— ______________________________

29. Gross national product— ______________________________

30. HS— ______________________________

31. International Air Transport Association— ______________

32. ICC— ______________________________

33. International Trade Administration— ______________

34. L/C— ______________________________

35. NTB— ______________________________

36. Non-Vessel Operating Common Carrier— ______________

37. OAC— ______________________________

38. OBR— ______________________________

39. Organization for Economic Cooperation and Development —

____

40. OEE— ______________________________

41. OEL— ______________________________

42. Overseas Private Investment Corporation— ______________

43. Private Export Funding Corporation— ______________

44. RO/RO— ______________________________

45. SBA— ______________________________

46. Sight draft— ______________________________

47. SED— ______________________________

48. Standard Industrial Classification— ______________

49. Standard Industrial Trade Classification— ______________

50. System for Tracking Export License Applications—

____

51. TSUSA— ______________________________

52. US&FCS— ____

53. USDA—____

54. WTDR— ____

ASSIGNMENT 1

1. Agent/Distributor Service
2. ASEAN
3. Air waybill
4. Bill of lading
5. BXA
6. C&F
7. Cost, Insurance, and Freight
8. Commodity Control List
9. CISG
10. COCOM
11. Documents Against Acceptance
12. District Export Council
13. Department of Commerce
14. D/P
15. Export Administration Regulations
16. ECCN
17. European Community
18. Export Trading Company
19. Export Management Company
20. EXIMBANK
21. Free Alongside Ship or Foreign Agricultural Service
22. FCIA
23. *Foreign Economic Trends*
24. Free On Board
25. Foreign Corrupt Practices Act
26. Free Trade Agreement

27. FTZ
28. General Agreement on Tariffs and Trade
29. GNP
30. Harmonized System
31. IATA
32. International Chamber of Commerce
33. ITA
34. Letter of credit
35. Nontariff barrier
36. NVOCC
37. Office of Antiboycott Compliance
38. *Overseas Business Reports*
39. OECD
40. Office of Export Enforcement
41. Office of Export Licensing
42. OPIC
43. PEFCO
44. Roll-on/roll-off
45. Small Business Administration
46. S/D
47. Shipper's Export Declaration
48. SIC
49. SITC
50. STELA
51. Tariff Schedules of the United States, Annotated
52. U.S. and Foreign Commercial Service
53. United States Department of Agriculture
54. *World Trader's Data Reports*

EXPORT POTENTIAL

Name ______________________________ Score __________

OBJECTIVE 1

Describe basic requirements for exporting. Choose four (4) requirements and briefly describe each.

1. ______________________________

2. ______________________________

3. ______________________________

4. ______________________________

OBJECTIVE 2

List reasons for evaluating export potential. List three (3) reasons.

1. ______________________________
2. ______________________________
3. ______________________________

OBJECTIVE 3

State considerations for evaluating export potential. State four (4) considerations.

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________

OBJECTIVE 4

Match export assistance sources with their descriptions. Write the correct letter in each blank.

____ 1. The agency within the U.S. Department of Commerce responsible for developing export control policy, processing export license applications, determining the timing of decontrols, and enforcing U.S. export control laws; also includes the Office of Export Licensing (OEL), the office that processes applications for export licenses and that is responsible for granting or denying export licenses

____ 2. A specialized firm acting as an agent for the exporter in preparing export documents and contracting to ship export goods overseas

____ 3. A U.S. Department of Commerce program that offers new exporters direct contact with experienced exporters who serve without compensation, and supports Department of Commerce export workshops, seminars, and other informational programs

____ 4. A source of federal government assistance for export financing through direct loans, loan guarantees, working capital loans and commercial credit risk insurance (through the Foreign Credit Insurance Association—FCIA)

____ 5. The agency within the U.S. Department of Agriculture (USDA) responsible for USDA export promotion activities—including counseling, promotional programs, and financing support—for exporters of agricultural commodities, livestock, and processed foods

a. Bureau of Export Administration (BXA)

b. Center for International Trade Development (CITD)

c. Clearing agent

d. District Export Council (DEC)

e. Export-Import Bank of the United States (EXIMBANK)

f. Foreign Agricultural Service (FAS)

g. Freight forwarder

h. International banking specialists

i. Oklahoma Export Assistance Program

j. Oklahoma International Export Services (OIES)

k. Overseas Private Investment Corporation (OPIC)

l. Private Export Funding Corporation (PEFCO)

____6. An export development center at Oklahoma State University that provides one-on-one training and offers assistance in evaluating product and company export potential, market research, marketing plans, establishing distributors, and creating special export sales programs

____7. Local or regional associations of individuals and firms representing all aspects of international trade; meet to discuss topics of common interest to members and provide opportunities for exchanging export ideas, experiences, and advice

____8. A joint program of the Oklahoma Department of Commerce (international division) and the U.S. Department of Commerce to counsel and assist Oklahoma exporters; one of the 48 DOC District Offices; assists exporters in identifying and evaluating overseas markets, contacting foreign representatives, preparing for and participating in promotion events, and other export-related services; also functions as a conduit for offering DOC/ITA/US&FCS international marketing information and programs and provides access to industry and country desk officers

____9. A U.S. Government-owned corporation that offers specialized financing services, political risk insurance and other insurance options for exporters

___10. A private corporation owned by investors, mostly commercial banks, that provides medium- and long-term loans to foreign borrowers for buying U.S. goods and services, and can supplement the financing options provided by commercial banks or Eximbank

m. U.S. Small Business Administration (SBA)

n. World trade associations

___ 11. A program coordinated by the Oklahoma Department of Vocational and Technical Education, in cooperation with the Department of Commerce, to assist Oklahoma companies with international contracting opportunities; provides procurement notices and the services of trained specialists who can assist in obtaining bid documents, listing firms on appropriate source lists, obtaining bid packs, locating and obtaining copies of international specifications or foreign trade regulations cited in bid packs, and informing businesses about the available services of state and federal agencies

___ 12. Assists U.S. exporters through Field Offices by providing export counseling, sponsoring export training programs with the Department of Commerce, providing the Export Revolving Line of Credit (ERLC), loan guarantees, direct loans, and organizing contacts for legal advice

___ 13. Assists in clearing export shipments through customs; also called a "customs broker"

___ 14. Experts at commercial banks offering international banking services such as trade financing, documentary credits, collection services, foreign exchange services, and export documentation assistance, among others

OBJECTIVE 5

State the word(s) represented by common abbreviations and acronyms. Choose fifteen (15) common abbreviations and acronyms and write the word(s) represented by each.

1. ______________________________

2. ______________________________

3. ______________________________

4. ______________________________

5. ______________________________

6. ______________________________

7. ______________________________

8. ______________________________

9. ______________________________

10. ______________________________

11. ______________________________

12. ______________________________

13. ______________________________

14. ______________________________

15. ______________________________

NOTICE

The objective listed below is not part of the Quick Check.

OBJECTIVE 6

Review common abbreviations and acronyms related to exporting. SCORE ________

OBJECTIVE 1

Any four of the following:

Available goods or service—Potential exporters must have a current good or service available for export. One of the steps in determining the feasibility of export sales for a company is assessing the export potential of your goods or service.

Available financial, personnel, and other resources specifically for export sales—Export operations are different from domestic operations and require the allocation of company resources specifically for export sales. Potential exporters must have the personnel to handle assigned export responsibilities.

Strength in domestic markets—Companies that are successful in U.S. markets and that operate under sound business practices in the U.S. may have a good basis for managing export operations. Risks exist for all exporters. However, companies that are not successful in U.S. markets or that require substantial improvements in domestic operations may be increasing their risks of failure in export sales.

Long-term commitment—Developing profitable markets may require more time for export sales than for domestic sales. Sales may fail to meet expectations until the goods have an established niche in the foreign market. Therefore, a long-term commitment to export sales can pay off. A long-term commitment also means designing an export marketing plan covering a period of years. Companies having a short-term commitment to a business relationship in foreign markets, such as with a foreign distributor or other foreign representative, might not reach their potential in these markets.

Organized approach—Export sales involve activities that are different from domestic sales. These activities include assessing the export potential of the company and the product, researching markets in foreign countries, designing an export marketing plan, preparing export documents, moving goods to foreign markets, and arranging for terms of payment and collection. An organized approach to these activities (and others) can help reduce the uncertainty about exporting and can help avoid problems in the export process.

Market research and intelligence—Market research is essential to designing a product-specific, market-specific plan for export sales. You must know your markets and the needs of each market. Market research and intelligence activities help you identify and evaluate possible target markets; assess market trends, conditions, and practices; provide a basis for an informed decision about market entry alternatives; and help to outline promising market entry strategies for specific target markets.

Flexibility—To succeed in foreign markets, the goods must fit the market. You must be flexible in meeting the special needs of foreign markets in terms of product modifications, pricing and terms of sale, channels of distribution, cultural and other requirements, terms of payment and collection, and other considerations.

OBJECTIVE 2

Any three of the following:

- To determine the feasibility of exporting
- To identify strengths and weaknesses related to the company and its product or service for export
- To distinguish between an "assumed" export potential and the true export potential
- To initiate and build support for company export activities

OBJECTIVE 3

Any four of the following:

Sales considerations—Analyzing past and present company sales activity in domestic and foreign markets, including competitive position and sales cycles

Product considerations—Evaluating the availability and suitability of the goods and related literature for foreign markets, including life cycle and modifications

Production considerations—Evaluating current and anticipated production capacity, inventory space, and production costs

Resource considerations—Evaluating in-house and outside personnel, financial and other resources available to handle assigned export responsibilities

Strategic considerations—Assessing company strategies, including pricing and distribution, and the role of export sales

Commitment considerations—Defining the commitment of top management to export operations

OBJECTIVE 4

1. a	8. j
2. g	9. k
3. d	10. l
4. e	11. i
5. f	12. m
6. b	13. c
7. n	14. h

OBJECTIVE 5

Any fifteen of the following:

ADS	Agent/Distributor Service
ASEAN	Association of South East Asian Nations
AWB	Air waybill
B/L	Bill of lading
BXA	Bureau of Export Administration
C&F	Cost and Freight
CIF	Cost, Insurance, and Freight
CCL	Commodity Control List
CISG	United Nations Convention on Contracts for the International Sale of Goods
COCOM	Coordinating Committee on Multilateral Export Controls
D/A	Documents Against Acceptance
DEC	District Export Council
DOC	Department of Commerce
D/P	Documents Against Payment
EAR	Export Administration Regulations
ECCN	Export Control Commodity Number
EC	European Community
ETC	Export Trading Company
EMC	Export Management Company
EXIMBANK	Export-Import Bank of the United States
FAS	Free Alongside Ship or Foreign Agricultural Service
FCIA	Foreign Credit Insurance Association
FET	*Foreign Economic Trends*
FOB	Free On Board
FCPA	Foreign Corrupt Practices Act

FTA	Free Trade Agreement
FTZ	Free Trade Zone
GATT	General Agreement on Tariffs and Trade
GNP	Gross national product
HS	Harmonized System
IATA	International Air Transport Association
ICC	International Chamber of Commerce
ITA	International Trade Administration
L/C	Letter of credit
NTB	Nontariff barrier
NVOCC	Non-Vessel Operating Common Carrier
OAC	Office of Antiboycott Compliance
OBR	*Overseas Business Reports*
OECD	Organization for Economic Cooperation and Development
OEE	Office of Export Enforcement
OEL	Office of Export Licensing
OPIC	Overseas Private Investment Corporation
PEFCO	Private Export Funding Corporation
RO/RO	Roll-on/roll-off
SBA	Small Business Administration
S/D	Sight draft
SED	Shipper's Export Declaration
SIC	Standard Industrial Classification
SITC	Standard Industrial Trade Classification
STELA	System for Tracking Export License Applications
TSUSA	Tariff Schedules of the United States, Annotated
US&FCS	U.S. and Foreign Commercial Service
USDA	United States Department of Agriculture
WTDR	*World Trader's Data Reports*

INTRODUCTION TO MARKET RESEARCH

3

INTRODUCTION

Market research is an important early step for all potential exporters. Market research can be informal, such as getting some qualified advice from other exporters, or formal, such as researching U.S. foreign trade statistics. In addition, the extent (and expense) of market research activities can vary according to the company and the goods or services for export.

UNIT OBJECTIVES

After completing this unit, you will know the basic steps in market research for exporting. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you will be able to

1. Describe market research for exporting.
2. Distinguish between primary and secondary sources of market research information.
3. Match primary and secondary sources of market research information with their advantages and disadvantages.
4. Explain factors limiting market research.
5. Identify in order basic steps in market research.
6. Describe considerations for country-specific research.

PREPARATION

- Order additional materials to supplement this unit.

Publications

- *A Basic Guide to Exporting* (Current edition). Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; or contact Department of Commerce district offices.

NOTE: Also see the Unit References.

- Review the unit and plan your presentation:
  - Estimate the amount of material that can be covered in each class session.
  - Plan for appropriate Assignments.
  - Identify objectives that you can supplement with other resources.
  - Invite guest speakers in advance.

EXAMPLE: Area exporters, Department of Commerce specialists, CITD trade specialists/analysts, and others

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities.

DELIVERY

Objective 1

- Discuss market research as both a formal and informal process. Managers may already have a picture of potential foreign markets and might conduct market research in order to verify export potential. Other managers might not have considered exporting before and/or might not have a history of inquiries from other countries. The extent (and expense) of market research depends on the company's unique situation.
- Identify common market research activities and give examples of the information such activities can provide.

Objectives 2 and 3

- Give examples of the many opportunities that potential exporters have to collect important export-related information. For example, potential exporters could obtain valuable information from primary sources such as foreign market representatives or buyers while attending trade shows and seminars, while conducting tours of the manufacturer's facility for foreign visitors, or other functions. Potential exporters can also regularly review industry-specific trade data through their own industry associations, through regularly-updated sources of statistical and other market outlook data, and through screening of relevant events and statistics reported in the daily and weekly media.

- Suggest ways for participants to "counter" the disadvantages of primary and secondary sources.

Objective 4

- Explain how each factor can limit the extent of market research.

Objective 5

- Illustrate the basic steps in market research by drawing an inverted pyramid: the steps move from general (bottom of pyramid) to specific (tip of pyramid).

Objective 6

- Explain (or ask participants to explain) why each consideration is important. Discuss selected questions from the list.

EVALUATION

- Give the Quick Check soon after presenting the unit.

- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- *A Basic Guide to Exporting*. U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service. September 1986.

- "IMAP" workshops (International Management Assistance Program), offered by the Center for International Trade Development (CITD), Oklahoma State University.

- "Fundamentals of Exporting" and "Export Marketing" workshops, offered by Oklahoma International Export Services (OIES), a joint program of the Oklahoma Department of Commerce and the U.S. and Foreign Commercial Service of the U.S. Department of Commerce.

- *Exporter's Guide to Federal Resources for Small Business*, Interagency Task Force on Trade. 1988 (Revised).

OBJECTIVE 1

Describe market research for exporting.

Market research is an important early step for all potential exporters. Market research can be **informal**, such as getting some qualified advice from other exporters, or **formal**, such as researching U.S. foreign trade statistics. In addition, the extent (and expense) of market research activities can vary according to the company and the product. For example, some managers might already have a picture of potential overseas markets as a result of overseas inquiries about their products, the activities of competitors overseas, media and trade reports, and other sources, and might use market research to verify the existence of possible foreign markets. Other managers might use market research to find possible foreign markets after determining that their firm and their product has export potential.

Market research can provide information required for management decision-making. Through an organized approach to market research, potential exporters can identify and evaluate possible target markets by size and growth potential. Management can also learn about market trends, conditions and practices, and discover market entry barriers for possible overseas markets. Market research can provide a basis for selecting market entry alternatives and methods of distribution, such as evaluating direct and indirect exporting and the strengths and performance of any intermediaries in identified target markets. In addition, market research can help identify competitive advantages and disadvantages, and assist managers in outlining market entry strategies.

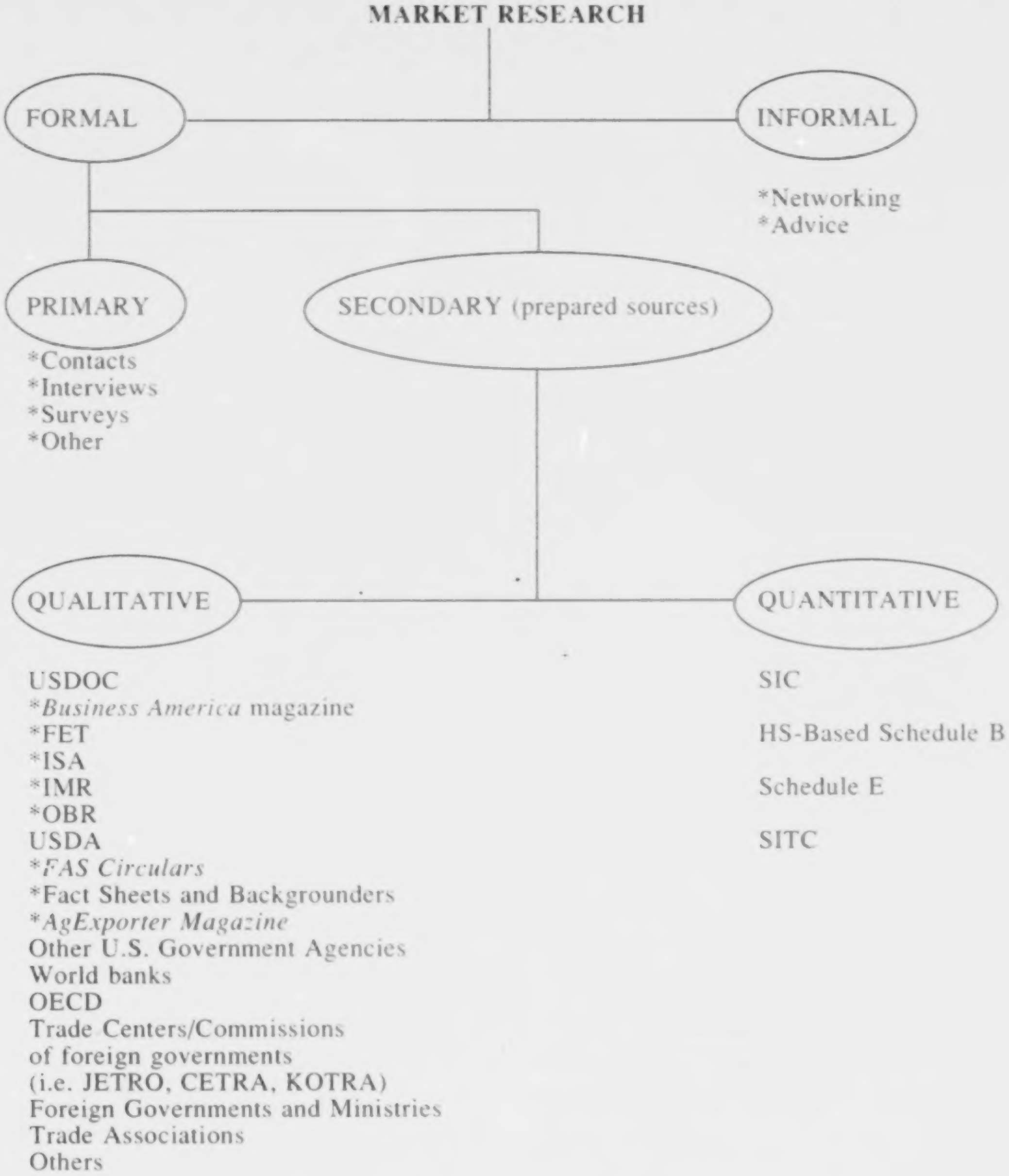
MARKET RESEARCH
FORMAL
INFORMAL
*Networking
*Advice
PRIMARY
SECONDARY (prepared sources)
*Contacts
*Interviews
*Surveys
*Other
QUALITATIVE
QUANTITATIVE
USDOC
*Business America magazine
*FET
*ISA
*IMR
*OBR
USDA
*FAS Circulars
*Fact Sheets and Backgrounders
*AgExporter Magazine
Other U.S. Government Agencies
World banks
OECD
Trade Centers/Commissions of foreign governments (i.e. JETRO, CETRA, KOTRA)
Foreign Governments and Ministries
Trade Associations
Others
SIC
HS-Based Schedule B
Schedule E
SITC

FIGURE 3-1. The market research process. (Source: Soo Peng Ng, Center for International Trade Development, Oklahoma State University.) See Unit 4 for more information about foreign trade data sources.

OBJECTIVE 2

Distinguish between primary and secondary sources of market research information.

Primary sources—Information about specific foreign markets gathered through direct contact, such as personal interviews, surveys, and other methods

EXAMPLE: CIMS, banks, industry associations, chambers of commerce, universities, and other sources

Secondary sources—Information about specific foreign markets gathered by researching prepared sources of statistical and other market outlook data, or by keeping track of events affecting export markets and export opportunities as reported in newspapers, trade journals, magazines and other media

OBJECTIVE 3

Match primary and secondary sources of market research information with their advantages and disadvantages.

PRIMARY SOURCES

*A = Advantage; D = Disadvantage

A Can be identified based on your specific needs and can respond to your specific questions

A Provide feedback directly from a foreign market

A Provide contacts in possible target markets

D Can require considerable time and expense

D May not, by itself, provide completely **objective** data

SECONDARY SOURCES

*A = Advantage; D = Disadvantage

A May be less expensive to use

NOTE: Some secondary sources are **free**.

A Include a large number of publications covering most markets and most aspects of exporting

A Provide an **easy** way to gather initial information for the export decision

D May not provide the most up-to-date statistics

D Product categories may be too broad

D Reliability of data depends on the source and the accuracy of the source

OBJECTIVE 4 **Explain factors limiting market research.**

Market research objectives—Limited export objectives can also limit the extent of market research required. Markets that do not fit in with your company's export objectives may not justify in-depth assessment. A company's export objectives might also provide for a fixed amount of company resources to be set aside for export operations, including market research.

EXAMPLE: A company might choose to explore export sales in a specific country or geographic region only.

Extent of company commitment to exporting—A company having a long-term commitment to export sales might emphasize market research more than companies having a short-term commitment. Developing profitable export markets requires time and a detailed export marketing plan covering a multi-year period. Such a plan requires extensive market research. A short-term commitment to exporting might generate short-term profits at the expense of long-term market share.

Nature of the good or service—Some export goods might have only a few widely-known markets, reducing the extent of market research needed. Others might be common or needed in many markets, increasing the amount of market research needed to identify the most promising target markets.

EXAMPLE: Certain high-technology goods or heavy equipment might have a few widely-known foreign markets. Specific consumer or agricultural goods might be common or needed in many foreign markets.

Present knowledge—The more information that is already available to you for assessing target markets, the more you can focus market research activities on the remaining unanswered questions.

Financial and personnel resources available—The amount of resources available to your company can influence the extent and method of market research.

EXAMPLE: Limited in-house resources might require the company to use more secondary sources of market research information, instead of using a primary source.

Research capabilities of personnel—Personnel must know how to find and/or how to interpret market research data.

Extent of past or present contact with primary information sources—Primary information sources can help a company to direct its market research activities by identifying or confirming opportunities overseas and by supplementing data from secondary sources.

OBJECTIVE 5 **Identify in order basic steps in market research.**

1. Identify market research objectives and limiting factors.
2. Identify sources of information.

   NOTE: Identify primary and secondary, statistical and non-statistical sources.

3. Record appropriate trade data classifications.
4. Evaluate statistical market potential.
5. Evaluate non-statistical market potential.
6. Rank your most promising potential markets.

   NOTE: Avoid diluting your research efforts by concentrating on too many markets.

7. Conduct in-depth research.
8. Conduct country-specific research.
9. Recommend target markets.

   NOTE: Other considerations or resources that could influence your recommendations include (1) English-speaking countries, so that you can use your existing printed materials in the foreign market also; (2) "indicators" from the FT 410; (3) Department of Commerce industry trade specialists; and (4) the *Commercial News USA* publication.

FOR YOUR INFORMATION

Possible prescreening factors

NOTE: Prescreening factors are your company's reasons for choosing markets for in-depth research. These factors vary with each company.

Statistical market potential—Research of market statistics provides a sound basis for identifying the most promising markets.

History of inquiries—Inquiries from foreign distributors and others may provide a starting point, but may not identify the most promising markets. Inquiries should be supplemented by market research.

Language—A company might prefer to export to countries where a specific language is spoken.

Geography—A company might prefer to export to a specific geographic region because of its competitive advantages in the region, or for other reasons.

Political factors—A company might want to avoid countries or regions having high political risks such as war, civil unrest, revolution, currency devaluation, and others.

OBJECTIVE 6

Describe considerations for country-specific research.

Statistical market potential—Identifying and assessing foreign markets according to their current and projected demand for like or similar goods, as well as any factors that could affect the sales potential of the market

Buyer characteristics—Describing the types of buyers in foreign markets and their reasons for buying the goods, including any alternative uses for the goods

Economic indicators—Assessing the economic conditions in target markets and their possible effects on the sales potential of the market

Financing—Investigating methods of payment, the record of payment, credit risks and other financial questions in the target market

Goods/service requirements—Determining the company's ability to provide the goods or services meeting buyer needs and target market requirements

Distribution—Identifying appropriate methods and channels of distribution for the target market, including the availability of methods and channels

Market competition—Identifying and evaluating competitors in the target market

Restrictions and/or barriers—Identifying any potential barriers to profitable sales in the target market

Incentives—Determining whether the potential target market offers incentives to U.S. exporters

EXAMPLE: Tax incentives; tariff incentives such as waivers, tariff-free foreign trade zones (FTZ), and others; financial incentives such as grants and financing assistance; and other incentives including, but not limited to, preferential positioning with respect to purchases by the government, site location and development, guaranteed availability of foreign exchange, and others

Packing, shipping, and documentation requirements—Evaluating target market modes of transportation for export goods and the documents required to ship the goods from the factory to the foreign buyer

Intellectual property rights—Assessing the protection offered in target markets to the U.S. company's intellectual property, such as trademarks, copyrights, and others

QUICK CHECK

INTRODUCTION TO MARKET RESEARCH

3

Name ______________________________ Score __________

OBJECTIVE 1

Describe market research for exporting. Include as many main points as possible.

____

____

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OBJECTIVE 2

Distinguish between primary and secondary sources of market research information. Write "primary" or "secondary" below each description.

1. Information about specific foreign markets gathered through direct contact, such as personal interviews, surveys, and other methods

   ____

2. Information about specific foreign markets gathered by researching prepared sources of statistical and other market outlook data, or by keeping track of events affecting export markets and export opportunities as reported in newspapers, trade journals, magazines and other media

   ____

OBJECTIVE 3

Match primary and secondary sources of market research information with their advantages and disadvantages. Write the correct letter in each blank.

____1. Can be identified based on your specific needs and can respond to your specific questions

____2. Provide an **easy** way to gather initial information for the export decision

____3. Can require considerable time and expense

____4. May be less expensive to use

____5. Include a large number of publications covering most markets and most aspects of exporting

____6. Provide feedback directly from a foreign market

____7. Provide contacts in possible target markets

____8. May not, by itself, provide completely **objective** data

____9. Reliability of data depends on the source and the accuracy of the source

___10. May not provide the most up-to-date statistics

___11. Product categories may be too broad

a. Primary sources

b. Secondary sources

OBJECTIVE 4

Explain factors limiting market research. Choose four (4) factors and briefly explain each.

1. ____

____

____

____

____

2. ____

____

____

3.

4.

OBJECTIVE 5

Identify in order basic steps in market research. Write the correct number 1-9 in each blank.

___ Identify market research objectives and limiting factors

___ Rank your most promising potential markets

___ Identify sources of information

___ Record appropriate trade data classifications

___ Conduct country-specific research

___ Evaluate non-statistical market potential

___ Conduct in-depth research

___ Evaluate statistical market potential

___ Recommend target markets

OBJECTIVE 6

Describe considerations for country-specific research. Choose six (6) considerations and briefly describe each.

1.

2.

3.

4.

5.

6.

QUICK CHECK ANSWERS

INTRODUCTION TO MARKET RESEARCH

3

OBJECTIVE 1

Market research is an important early step for all potential exporters. Market research can be informal, such as getting some qualified advice from other exporters, or formal, such as researching U.S. foreign trade statistics. In addition, the extent (and expense) of market research activities can vary according to the company and the product. For example, some managers might already have a picture of potential overseas markets as a result of overseas inquiries about their products, the activities of competitors overseas, media and trade reports, and other sources, and might use market research to verify the existence of possible foreign markets. Other managers might use market research to find possible foreign markets after determining that their firm and their product has export potential.

Market research can provide information required for management decision-making. Through an organized approach to market research, potential exporters can identify and evaluate possible target markets by size and growth potential. Management can also learn about market trends, conditions and practices, and discover market entry barriers for possible overseas markets. Market research can provide a basis for selecting market entry alternatives and methods of distribution, such as evaluating direct and indirect exporting and the strengths and performance of any intermediaries in identified target markets. In addition, market research can help identify competitive advantages and disadvantages, and assist managers in outlining market entry strategies.

OBJECTIVE 2

1. Primary
2. Secondary

OBJECTIVE 3

1. a
2. b
3. a
4. b
5. b
6. a
7. a
8. a
9. b
10. b
11. b

OBJECTIVE 4

Any four of the following:

Market research objectives—Limited export objectives can also limit the extent of market research required. Markets that do not fit in with your company's export objectives may not justify in-depth assessment. A company's export objectives might also provide for a fixed amount of company resources to be set aside for export operations, including market research.

Extent of company commitment to exporting—A company having a long-term commitment to export sales might emphasize market research more than companies having a short-term commitment. Developing profitable export markets requires time and a detailed export marketing plan covering a multi-year period. Such a plan requires extensive market research. A short-term commitment to exporting might generate short-term profits at the expense of long-term market share.

Nature of the good or service—Some export goods might have only a few widely-known markets, reducing the extent of market research needed. Others might be common or needed in many markets, increasing the amount of market research needed to identify the most promising target markets.

Present knowledge—The more information that is already available to you for assessing target markets, the more you can focus market research activities on the remaining unanswered questions.

Financial and personnel resources available—The amount of resources available to your company can influence the extent and method of market research.

Research capabilities of personnel—Personnel must know how to find and/or how to interpret market research data.

Extent of past or present contact with primary information sources—Primary information sources can help a company to direct its market research activities by identifying or confirming opportunities overseas and by supplementing data from secondary sources.

OBJECTIVE 5

1, 6, 2, 3, 8, 5, 7, 4, 9.

OBJECTIVE 6

Any six of the following:

Statistical market potential—Identifying and assessing foreign markets according to their current and projected demand for like or similar goods, as well as any factors that could affect the sales potential of the market

Buyer characteristics—Describing the types of buyers in foreign markets and their reasons for buying the goods, including any alternative uses for the goods

Economic indicators—Assessing the economic conditions in target markets and their possible effects on the sales potential of the market

Financing—Investigating methods of payment, the record of payment, credit risks and other financial questions in the target market

Goods/service requirements—Determining the company's ability to provide the goods or services meeting buyer needs and target market requirements

Distribution—Identifying appropriate methods and channels of distribution for the target market, including the availability of methods and channels

Market competition—Identifying and evaluating competitors in the target market

Restrictions and/or barriers—Identifying any potential barriers to profitable sales in the target market

Incentives—Determining whether the potential target market offers incentives to U.S. exporters

Packing, shipping, and documentation requirements—Evaluating target market modes of transportation for export goods and the documents required to ship the goods from the factory to the foreign buyer

Intellectual property rights—Assessing the protection offered in target markets to the U.S. company's intellectual property, such as trademarks, copyrights, and others

UNIT OBJECTIVES

FOREIGN TRADE DATA SOURCES

4

INTRODUCTION

Foreign trade data classification systems identify goods in foreign trade (export and import) through a system of arabic numbers. These numbers are used for recording and reporting trade data. By knowing the most specific codes representing your goods, you can find the most relevant foreign trade data.

UNIT OBJECTIVE

After completing this unit, you should be familiar with basic classification systems used for recording and reporting foreign trade data. You should also be able to locate a specific SIC code, and cross-reference that code to other classification systems. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you will be able to

1. Explain the importance of trade data classification systems.
2. Match terms associated with trade data classification systems with their correct definitions.
3. Identify key resources for locating possible target markets.
4. Locate a specific SIC code. (Assignment 1)

PREPARATION

- Order additional materials to supplement this unit.

  Publications

  - *A Basic Guide to Exporting* (Current edition)
  - *FT410 (U.S. Exports, Schedule E Commodity by Country)* [December 1988 issue is the final issue]
  - *FT990 (Highlights of U.S. Export and Import Trade)* [Latest issue]
  - *Statistical Classification of Domestic and Foreign Commodities Exported from the United States (Schedule B)* [Latest issue]

  Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; or contact Department of Commerce district offices.

  - "Trade Data: Understanding the Classification Systems" (*CITD Data Sheet*, January 1989)
  - "An Update on Foreign Trade Data Reporting Following the Implementation of the Harmonized System" (*CITD Data Sheet*, October 1989)

  Available from the Center for International Trade Development, Hall of Fame and Washington, Stillwater, Oklahoma 74078-0390.

  NOTE: Also see the Unit References.

- Review the unit and plan your presentation:
  - Estimate the amount of material that can be covered in each class session.
  - Plan for appropriate Assignments.
  - Identify objectives that you can supplement with other resources.

  - Invite guest speakers in advance.

    EXAMPLE: Area exporters, Department of Commerce specialists, CITD trade specialists/analysts, or others

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities in addition to the Assignments.

DELIVERY

Objective 1

- Discuss as a group each of the listed reasons for being familiar with the different trade data classification systems.

Objectives 2 and 3

- Emphasize the value of learning the "language of exporting," including terms and definitions.

- Invite DOC specialists to demonstrate how the SIC number can be cross-referenced to Schedule B, Schedule E, and HS. Ask the specialist to bring (1) three of the latest available December issues of the FT410, and (2) the SIC codes.

- Choose a sample commodity description, then show how to find answers to specific questions about the commodity by using the different classification systems and key resources.

APPLICATION

Objective 4

- Complete the Assignment as an in-class or take-home activity after discussing the related objectives.

- Review the related objectives before completing the Assignment, if needed.

- Create additional Assignments, as needed, to reinforce the objectives and/or to meet the needs of participants.

EVALUATION

- Give the Quick Check soon after presenting the unit and after completing the Assignment.

- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- *A Basic Guide to Exporting*, U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service. September 1986.
- "IMAP" workshops (International Management Assistance Program), offered by the Center for International Trade Development (CITD), Oklahoma State University.
- "Fundamentals of Exporting" and "Export Marketing" workshops, offered by Oklahoma International Export Services (OIES), a joint program of the Oklahoma Department of Commerce and the U.S. and Foreign Commercial Service of the U.S. Department of Commerce.
- *CITD DATA SHEET*, "Trade Data: Understanding the Classification Systems," Center for International Trade Development, Oklahoma State University. January 1989.
- *CITD DATA SHEET*, "An Update on Foreign Trade Data Reporting Following the Implementation of the Harmonized System," Center for International Trade Development, Oklahoma State University. October 1989.
- *Understanding United States Foreign Trade Data*, U.S. Department of Commerce, International Trade Administration. August 1985.
- *Highlights of U.S. Export and Import Trade (FT990)*, U.S. Department of Commerce, Bureau of the Census. October 1988.
- *U.S. Exports, Schedule E Commodity by Country (FT410)*, U.S. Department of Commerce. August 1988.
- *Statistical Classification of Domestic and Foreign Commodities Exported from the United States (Schedule B)*, U.S. Department of Commerce. 1988 Edition.
- "Understanding United States Foreign Trade Data," by Victor B. Bailey and Sara R. Bowden, in *Business America* magazine, U.S. Department of Commerce. October 14, 1985.

OBJECTIVE 1

Explain the importance of trade data classification systems.

Foreign trade data classification systems identify goods in foreign trade (export and import) through a system of arabic numbers. These numbers are used for recording and reporting trade data. This data can help to indicate the export potential for your goods. You should be familiar with the different trade data classification systems for many reasons. **First, different countries record their trade data using different systems**. For example, before January 1, 1989, the United States used unique classification systems ("Schedule B" and "Schedule E") that did not allow for direct international comparison of foreign trade data. Other countries use the new Harmonized System or "HS" (which became effective in the United States on January 1, 1989). A few countries have not yet adopted HS and use CCCN. In addition, foreign trade data reported under the United Nations uses a different system, the SITC format. Because the United States is part of a global market, U.S. exporters must be familiar with the different systems in use around the world for recording and reporting trade data. **Second, Americans are not the only manufacturers in the world**. Foreign competitors are exporting their goods and are using different classification systems. To get a better indication of the global market potential for your goods, you must be able to access trade data from as many sources as possible. **Third, U.S. exporters must be familiar with the classification systems used in the United States before the Harmonized System became effective, in order to conduct in-depth market research**. In-depth market research begun today should consider the trade data reported under past and present classification systems.

Fourth, trade data classification systems can also assist exporters in cross-referencing the export data reported under the different systems. Every commodity description is represented by a number code. More specific commodities within each description are represented by digits added to the original code. As the number of digits increases, the commodity description associated with that code becomes more specific. For example, the SIC codes in the *Standard Industrial Classification Manual* reach 4 digits. The Department of Commerce uses its own SIC-based product coding system that reaches 7 digits of detail. If your company manufactures pneumatic actuated control valves and you were using the DOC coding system, you would find the most relevant trade data at the 7-digit level than at the 4-digit (SIC) level. By knowing the most specific codes representing your goods, you can find the most relevant foreign trade data. Also, by identifying the possible SIC codes for your goods, you might be able to obtain the most favorable duty rate.

EXAMPLE:

THIS CODE	**REPORTS DATA RELEVANT TO**
SIC CODE	
349	Miscellaneous fabricated metal products
3494	Valves and pipe fittings, not elsewhere classified
DOC CODE (SIC-BASED)	
34941	Automatic regulating and control valves
3494105	Pneumatic actuated [automatic regulating and control valves]

OBJECTIVE 2

Match terms associated with trade data classification systems with their correct definitions.

SIC (Standard Industrial Classification)—A classification system unique to the United States for identifying U.S. domestic manufactured products and services

NOTE: You can locate SIC codes in the *Standard Industrial Classification Manual (1987)*, available in the reference section of most libraries.

Schedule B—A classification system unique to the United States in which U.S. export data are originally recorded on the Shipper's Export Declaration (SED). Prior to the adoption of the Harmonized System in the United States on January 1, 1989, this system used a 7-digit number. The "new" system uses an 11-digit number.

NOTE: The "new" Schedule B is also called "HS-based Schedule B."

Schedule E—A classification system unique to the United States in which U.S. export data compiled from the SED were reported by the Bureau of the Census in the **FT410**, prior to January 1, 1989

Harmonized System (HS)—A 10-digit code replacing the old Schedule B numbers in recording exports on the SED

NOTE: The Harmonized System became effective in the United States on January 1, 1989. Most countries now use HS. However, South Korea and Taiwan still use CCCN.

CCCN (Customs Cooperation Council Nomenclature)—Formerly called BTN (Brussels Tariff Nomenclature), used by countries of the European Community before the HS System was implemented

NOTE: Most countries now use HS. However, South Korea and Taiwan still use CCCN.

SITC (Standard Industrial Trade Classification)—The international trade data format developed by the United Nations for reporting foreign trade data

FOR YOUR INFORMATION
About the Harmonized System (HS)

The United States has joined 50 other nations in adopting the new Harmonized Commodity Description and Coding System. The Harmonized System (HS) became effective in the U.S. on January 1, 1989. The HS is an international goods classifications system designed to standardize product classification for key trading nations. The HS is also intended to make it easier for exporters to provide proper documentation for shipments to countries using the HS.

Before the HS was implemented in the United States, the most common U.S. data classification systems for export were Schedule B and Schedule E. SIC codes were originally developed for classifying domestic data used in analyses of domestic commerce (rather than foreign trade). Schedule B numbers were the official commodity classification numbers **recorded** by the exporter on the Shipper's Export Declaration (SED). Schedule E was a rearrangement of Schedule B, used by the Bureau of the Census for **reporting** U.S. export data.

The implementation of the Harmonized System in the United States has caused changes and breaks in the reporting and publication of export and import data. Potential exporters should be aware of the different classification systems in order to access the appropriate data and to access data classified under previous systems: for U.S. domestic data, SIC; for U.S. exports, Schedule B, Schedule E and the HS-based Schedule B effective for reporting after January 1, 1989; for international data from the United Nations, SITC; and for foreign country export data, CCCN and/or the HS.

SOURCES: "Trade Data: Understanding the Classification Systems" (*CITD Data Sheet*, January 1989) and "An Update on Foreign Trade Data Reporting Following the Implementation of the Harmonized System" (*CITD Data Sheet*, October 1989).

OBJECTIVE 3

Identify key resources for locating possible target markets.

NOTE: Before conducting market research, you should identify and confirm the most appropriate codes (SIC, Schedule B, Schedule E, and SITC) for your goods with your nearest Department of Commerce district office.

CIMS (Commercial Information Management System)—The automated DOC trade information service useful for conducting market research; locating trade leads; identifying foreign contacts such as foreign agents, distributors, manufacturers, retailers, government purchasing officials, and end-users; evaluating foreign contacts; assessing current conditions in target markets; and other applications

NOTE: Contact your nearest DOC district office for more information about using CIMS.

FT410 (U.S. Exports, Schedule E Commodity by Country)—A Bureau of the Census publication listing the monthly and cumulative (January to date) level of goods exported from the U.S. in quantity and dollar value, according to Schedule E commodity groupings and commodities; also identifies the countries of destination

NOTE: The final issue of the FT410 is the December 1988 issue.

IMR (International Market Research)—An in-depth analysis for one industry in one country; provides information such as market size, outlook, end-users, channels of distribution, trade barriers, competitive situation, and other data

NOTE: For more information, contact your nearest DOC district office.

FET (Foreign Economic Trends)—Discusses the current business and economic developments in specific countries; also describes economic indicators such as GNP, inflation, levels of foreign trade and others; updated annually or semi-annually by U.S. embassies, depending on the value of the country as a trading partner

NOTE: For more information, contact your nearest DOC district office.

OBR (Overseas Business Reports)—Offers a general overview of the business conditions in a specific country, including current marketing information, banking and credit policies, trade regulations and transportation requirements, trade forecasts, distribution and sales channels, and economic/commercial profiles of industrialized and developing countries; also reports selected statistics on the direction, volume and nature of U.S. foreign trade with specific countries, by commodity groups; includes a semi-annual outlook for U.S. trade with countries and regions

NOTE: For more information, contact your nearest DOC district office.

ISA (Industry Sector Analysis)—An edited version of International Market Research (IMR) reporting on an industry sector in a particular country; consists mainly of market size and outlook, end-user analysis, competitive situation, trade barriers and best sales prospects

NOTE: ISA is available through CIMS or in the form of printed copies.

International Market Reports—Foreign market reports for select major industry segments, including data such as: a past four-year analysis of U.S. exports for specific product categories (from the FT410); market size; industry profile; end-user analysis; market environment; and best sales prospects (where identifiable)

NOTE: For more information, contact the Center for International Trade Development at Oklahoma State University.

Trade leads—A foreign offer to buy (or sell) a particular product or service; also called "sales lead;" information often includes the name and address of the foreign contact, a description of the offer, preferred methods of payment, response guidelines, bid deadlines, and other data; sources include the DOC Trade Opportunities Program (TOP), *Commerce Business Daily*, the USDA Foreign Agricultural Service (FAS), the World Bank, and others

NOTE: For more information about trade leads, contact your nearest DOC district office or your nearest vo-tech Export Assistance Center.

FOR YOUR INFORMATION

More resources for foreign trade information

NOTE: For more information about the following resources, contact your nearest DOC district office.

Schedule B (Statistical Classification of Domestic and Foreign Commodities Exported from the United States)

- Schedule B numbers for U.S. products
- Commodity descriptions and units of quantity

FT990 (Highlights of U.S. Export and Import Trade)

- Monthly report of U.S. exports (and imports)
- Export totals for Schedule E commodity groupings and commodities
- Export totals for world areas and countries of destination
- Export totals for U.S. coastal areas and customs districts

ESP (Export Statistics Profiles)

- Five-year sales trends of products within single industries

  NOTE: You can identify whether the U.S. exports of your product have increased, decreased, or stayed constant over the five-year period overall and for specific countries.

- Product-by-product, country-by-country export trends defined by industry
- Industries and their importing countries
- Importing countries of your industry's products
- Level of trade for similar products and substitutes

CTS (Country Trade Statistics)

- Top 200 U.S. products exported to each of a number of specific countries
- U.S. exports finding a primary market in a specific country
- Growth rate for each export in each country covered
- Country's percentage share of all U.S. exports of each product

FOR YOUR INFORMATION (Continued)

Custom Statistical Service

- Specific product information arranged in four levels of detail, using Schedule B codes
- Data available by dollar value, quantity, unit value, growth rate, and market share percentage
- Data can be given for different time frames: monthly, quarterly, one year, or five years

Name ______________________________ Score __________

OBJECTIVE 4

Locate a specific SIC code.

INTRODUCTION

SIC codes were originally developed for classifying domestic data used in analyses of domestic commerce (rather than foreign trade). However, the proper SIC code can help you access important trade data classified under different systems. You can locate SIC codes in the *Standard Industrial Classification Manual (1987)*, available in the reference section of most libraries. You can also contact your nearest DOC district office for assistance about cross-referencing the SIC code to Schedule B, Schedule E and HS-based Schedule B.

The codes in the *Standard Industrial Classification Manual* reach 4 digits. The Department of Commerce uses its own SIC-based product coding system that reaches 7 digits of detail. It is very important for you to choose the most specific code for your goods. This choice will influence the accuracy of your market research.

EXAMPLE: Suppose that your company manufactures pneumatic actuated control valves. Using the *Standard Industrial Classification Manual (1987)*, you locate the SIC code 349 for "MISCELLANEOUS FABRICATED METAL PRODUCTS." Under that code, you find the 4-digit code 3494 for "Valves and Pipe Fittings, Not Elsewhere Classified." The codes in the *Manual* reach only 4 digits. After consulting with your nearest DOC district office, you locate the DOC SIC-based code 34941 for "AUTOMATIC REGULATING AND CONTROL VALVES." Under 34941, you locate the 7-digit code 3494105 for your pneumatic actuated valves. Using a code and its commodity description that is too broad, you might mistakenly determine that the potential for your export sales is $300,000.00 when the more realistic potential is $30,000.00, based on the most specific code.

DIRECTIONS

- Choose the commodity description for your goods,

  OR

  if you do not have a product for export, choose one of the sample commodities listed below.

- Using the *Standard Industrial Classification Manual (1987)*, locate the 4-digit SIC code and commodity description that most closely matches your chosen commodity. You can locate this code by (1) checking the table of contents for the appropriate industry, then finding your commodity within that industry, or (2) checking the Alphabetic Index (Part III) for your commodity. Record the code and its commodity description in the space provided.

  EXAMPLE: See the following sample pages and the table of contents from the *Manual* (1987 edition). If your company manufactures metal pipe fittings, you might choose the 4-digit SIC code 3494 and its commodity description "Valves and Pipe Fittings, Not Elsewhere Classified" (under the 3-digit code 349 "MISCELLANEOUS FABRICATED METAL PRODUCTS"). If your company manufactures fishing tackle, not including lines, nets, and seines, you might choose the 4-digit SIC code 3949 and its commodity description "Sporting and Athletic Goods, Not Elsewhere Classified" (under the 3-digit code 394 "DOLLS, TOYS, GAMES AND SPORTING AND ATHLETIC GOODS").

SAMPLE COMMODITIES

Paint sprayers
Aircraft air scoops
Computer disk drives
Dental cutting instruments
Filing folders
Pipe sections (fabricated from purchased metal pipe)
Archery equipment
Prefinished hardwood plywood
Sheet metalworking machines
Oil well and oil field pumps
Numerical controls
Sausages
Thousand Island dressing
Underwater lighting fixtures
Sorghum grain flour
Men's dress shoes

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Industry Group No. Industry No.

349 MISCELLANEOUS FABRICATED METAL PRODUCTS—Con.

3494 Valves and Pipe Fittings, Not Elsewhere Classified

Establishments primarily engaged in manufacturing metal valves and pipe fittings, not elsewhere classified, such as plumbing and heating valves, and pipe fittings, flanges, and unions, except from purchased pipes. Establishments primarily engaged in manufacturing plastics pipe fittings are classified in Industry 3089; those manufacturing plumbing fixture fittings and trim are classified in Industry 3432; and those manufacturing fittings and couplings for garden hose are classified in Industry 3429. Establishments primarily engaged in manufacturing fluid power valves are classified in Industry 3492, and those manufacturing other industrial valves are classified in Industry 3491. Establishments primarily engaged in fabricating pipe fittings from purchased metal pipe by processes such as cutting, threading, and bending are classified in Industry 3498.

Boiler couplings and drains, metal
Couplings, pipe: except pressure and soil pipe—metal
Elbows, pipe: except pressure and soil pipe—metal
Flanges and flange unions, pipe: metal
Line strainers, for use in piping systems—metal
Pipe fittings, except plumbers' brass goods: metal
Pipe hangers, metal
Plumbing and heating valves, metal
Reducer returns, pipe: metal
Steam fittings and specialties, except plumbers' brass goods and fittings, metal
Stop cocks, except drain: metal
Unions, pipe: metal
Well adapters, tipless: metal
Y bends and branches, pipe: metal

3495 Wire Springs

Establishments primarily engaged in manufacturing wire springs from purchased wire. Establishments primarily engaged in assembling wire bedsprings or seats are classified in Major Group 25.

Clock springs, precision: made from purchased wire
Furniture springs, unassembled: made from purchased wire
Gun springs, precision: made from purchased wire
Hairsprings, made from purchased wire
Instrument springs, precision: made from purchased wire
Mechanical springs, precision: made from purchased wire
Sash balances, spring
Spring units for seats, made from purchased wire
Springs, except complete bedsprings: made from purchased wire
Upholstery springs, unassembled: made from purchased wire

3496 Miscellaneous Fabricated Wire Products

Establishments primarily engaged in manufacturing miscellaneous fabricated wire products from purchased wire, such as noninsulated wire rope and cable; fencing; screening, netting, paper machine wire cloth; hangers, paper clips, kitchenware, and wire carts. Rolling mills engaged in manufacturing wire products are classified in Major Group 33. Establishments primarily engaged in manufacturing steel nails and spikes from purchased wire or rod are classified in Industry 3315; those manufacturing nonferrous wire nails and spikes from purchased wire or rod are classified in Industry 3399; those drawing and insulating nonferrous wire are classified in Industry 3357; and those manufacturing wire springs are classified in Industry 3495.

Antisubmarine and torpedo nets, made from purchased wire
Barbed wire, made from purchased wire
Baskets, made from purchased wire
Belts, conveyor: made from purchased wire
Belts, drying: made from purchased wire
Bird cages, made from purchased wire
Bottle openers, made from purchased wire
Cable, uninsulated wire: made from purchased wire

Industry Group No. | Industry No.

394 DOLLS, TOYS, GAMES AND SPORTING AND ATHLETIC GOODS—Con.

3944 Games, Toys, and Children's Vehicles, Except Dolls and Bicycles—Con.

and stuffed toys
Trains and equipment, toy: electric and mechanical
Tricycles, children's
Vehicles except bicycles, children's
Video game machines, except coin-operated
Wagons, children's: coaster, express, and play
Walkers, baby (vehicles)

3949 Sporting and Athletic Goods, Not Elsewhere Classified

Establishments primarily engaged in manufacturing sporting and athletic goods, not elsewhere classified, such as fishing tackle; golf and tennis goods; baseball, football, basketball, and boxing equipment; roller skates and ice skates; gymnasium and playground equipment; billiard and pool tables; and bowling alleys and equipment. Establishments primarily engaged in manufacturing athletic apparel are classified in Major Group 23; those manufacturing athletic footwear are classified in Industries 3021 and 3149; those manufacturing small arms ammunition are classified in Industry 3482; and those manufacturing small arms are classified in Industry 3484.

Ammunition belts, sporting type: of all materials
Archery equipment
Arrows, archery
Athletic and sporting g[illegible]cept clothing, footwear, [illegible] and ammunition
Badminton equipment
Bait, fishing: artificial
Balls: baseball, basketball, football, golf, tennis, pool, and bowling
Baseball equipment and supplies, except uniforms and footwear
Bases, baseball
Basketballs and basketball equipment and supplies, except uniforms and footwear
Baskets, fish and bait
Bats, game: e.g., baseball, softball, cricket
Billiard and pool balls, cues, cue tips, and tables
Billiard chalk
Bobsleds
Boomerangs
Bowling alleys and accessories
Bowling pin machines, automatic
Bowling pins
Bows, archery
Boxing equipment
Bridges, billiard and pool
Buckets, fish and bait
Cartridge belts, sporting type
Cases, gun and rod (sporting equipment)
Creels, fish
Cricket equipment
Croquet sets
Decoys, duck and other game birds
Dumbbells
Exercise cycles
Exercising machines
Fencing equipment (sporting goods)
Fishing tackle (except lines, nets, and seines)
Flies, artificial: for fishing
Floats for fish lines
Footballs and football equipment and supplies, except uniforms and footwear
Game calls
Gloves, sport and athletic: e.g., boxing, baseball, racketball, handball
Golf carts, hand
Golfing equipment: e.g., caddy carts and bags, clubs, tees, balls
Guards: e.g., football, basketball, soccer, lacrosse
Gymnasium and playground equipment
Helmets, athletic
Hockey equipment, except uniforms and footwear
Indian clubs
Jogging machines
Lacrosse equipment
Mallets, sports: e.g., polo, croquet
Masks, sports: e.g., baseball, fencing, hockey
Nets: e.g., badminton, basketball, tennis—not made in weaving mills
Pads, athletic: e.g., football, basketball, soccer, lacrosse
Pigeons, clay (targets)
Pinsetters for bowling, automatic
Playground equipment
Polo equipment, except apparel and footwear
Pool balls, pockets, tables, and equipment
Protectors, sports: e.g., baseball, basketball, hockey
Rackets and frames, sports: e.g., tennis, badminton, squash, racketball, lacrosse
Rowing machines
Sailboards
Scoops, crab and fish
Scuba diving equipment, except clothing
Shafts, golf club
Sinkers (fishing tackle)
Skateboards
Skates and parts, ice and roller
Skin diving equipment, except clothing
Skis and skiing equipment, except apparel
Snowshoes
Soccer equipment, except apparel
Spearguns
Spears, fishing

1. SIC Code (4-digit):

____

2. Commodity Description (for the 4-digit code):

____

____

____

ASSIGNMENT ANSWERS | FOREIGN TRADE DATA SOURCES 4

ASSIGNMENT 1

For the sample commodities in this Assignment, the 4-digit SIC code and commodity descriptions follow:

Paint sprayers
3563 Air and Gas Compressors

Aircraft air scoops
3724 Aircraft Engines and Engine Parts

Computer disk drives
3572 Computer Storage Devices

Dental cutting instruments
3843 Dental Equipment and Supplies

Filing folders
2675 Die-Cut Paper and Paperboard and Cardboard

Pipe sections (fabricated from purchased metal pipe)
3498 Fabricated Pipe and Pipe Fittings

Archery equipment
3949 Sporting and Athletic Goods, Not Elsewhere Classified

Prefinished hardwood plywood
2435 Hardwood Veneer and Plywood

Sheet metalworking machines
3542 Machine Tools, Metal Forming Types

Oil well and oil field pumps
3561 Pumps and Pumping Equipment

Numerical controls
3625 Relays and Industrial Controls

Sausages
2013 Sausages and Other Prepared Meat Products

Thousand Island dressing
2035 Pickled Fruits and Vegetables, Vegetable Sauces and Seasonings, and Salad Dressings

Underwater lighting fixtures
3648 Lighting Equipment, Not Elsewhere Classified

Sorghum grain flour
2041 Flour and Other Grain Mill Products

Men's dress shoes
3143 Men's Footwear, Except Athletic

FOREIGN TRADE DATA SOURCES

Name ____________________ Score ________

OBJECTIVE 1

Explain the importance of trade data classification systems. Include as many main points as possible.

OBJECTIVE 2

Match terms associated with trade data classification systems with their correct definitions. Write the correct letter in each blank.

____1. A classification system unique to the United States for identifying U.S. domestic manufactured products and services

____2. A classification system unique to the United States in which U.S. export data are originally recorded on the Shipper's Export Declaration (SED). Prior to the adoption of the Harmonized System in the United States on January 1, 1989, this system used a 7-digit number. The "new" system uses an 11-digit number.

____3. A 10-digit code replacing the old Schedule B numbers in recording exports on the SED

____4. A classification system unique to the United States in which U.S. export data compiled from the SED were reported by the Bureau of the Census in the **FT410**, prior to January 1, 1989

____5. Formerly called BTN (Brussels Tariff Nomenclature), used by countries of the European Community before the HS System was implemented

____6. The international trade data format developed by the United Nations for reporting foreign trade data

a. CCCN (Customs Cooperation Council Nomenclature)

b. Harmonized System (HS)

c. Schedule B

d. Schedule E

e. SIC (Standard Industrial Classification)

f. SITC (Standard Industrial Trade Classification)

OBJECTIVE 3

Identify key resources for locating possible target markets. In the space below each description, write the name of the resource.

The automated DOC trade information service useful for conducting market research; locating trade leads; identifying foreign contacts such as foreign agents, distributors, manufacturers, retailers, government purchasing officials, and end-users; evaluating foreign contacts; assessing current conditions in target markets; and other applications

1. ______________________________

An in-depth analysis for one industry in one country. Provides information such as market size, outlook, end-users, channels of distribution, trade barriers, competitive situation, and other data

2. ______________________________

Discusses the current business and economic developments in specific countries; also describes economic indicators such as GNP, inflation, levels of foreign trade and others; updated annually or semi-annually by U.S. embassies, depending on the value of the country as a trading partner

3. ______________________________

Offers a general overview of the business conditions in a specific country, including current marketing information, banking and credit policies, trade regulations and transportation requirements, trade forecasts, distribution and sales channels, and economic/commercial profiles of industrialized and developing countries; also reports selected statistics on the direction, volume and nature of U.S. foreign trade with specific countries, by commodity groups; includes a semi-annual outlook for U.S. trade with countries and regions

4. ______________________________

A Bureau of the Census publication listing the monthly and cumulative (January to date) level of goods exported from the U.S. in quantity and dollar value, according to Schedule E commodity groupings and commodities; also identifies the countries of destination

5. ______________________________

An edited version of International Market Research (IMR) reporting on an industry sector in a particular country; consists mainly of market size and outlook, end-user analysis, competitive situation, trade barriers and best sales prospects

6. ______________________________

A foreign offer to buy (or sell) a particular product or service; also called "sales lead;" information often includes the name and address of the foreign contact, a description of the offer, preferred methods of payment, response guidelines, bid deadlines, and other data; sources include the DOC Trade Opportunities Program (TOP), *Commerce Business Daily*, the USDA Foreign Agricultural Service (FAS), the World Bank, and others

7. ____________________

Foreign market reports for select major industry segments, including data such as: a past four-year analysis of U.S. exports for specific product categories (from the FT410); market size; industry profile; end-user analysis; market environment; and best sales prospects (where identifiable)

8. ____________________

NOTICE The objective listed below is not part of the Quick Check.

OBJECTIVE 4 **Locate a specific SIC code.** SCORE ________

OBJECTIVE 1

Foreign trade data classification systems identify goods in foreign trade (export and import) through a system of arabic numbers. These numbers are used for recording and reporting trade data. This data can help to indicate the export potential for your goods. You should be familiar with the different trade data classification systems for many reasons. **First, different countries record their trade data using different systems.** For example, before January 1, 1989, the United States used unique classification systems ("Schedule B" and "Schedule E") that did not allow for direct international comparison of foreign trade data. Other countries use the new Harmonized System or "HS" (which became effective in the United States on January 1, 1989). A few countries have not yet adopted HS and use CCCN. In addition, foreign trade data reported under the United Nations uses a different system, the SITC format. Because the United States is part of a global market, U.S. exporters must be familiar with the different systems in use around the world for recording and reporting trade data. **Second, Americans are not the only manufacturers in the world.** Foreign competitors are exporting their goods and are using different classification systems. To get a better indication of the global market potential for your goods, you must be able to access trade data from as many sources as possible. **Third, U.S. exporters must be familiar with the classification systems used in the United States before the Harmonized System became effective, in order to conduct in-depth market research.** In-depth market research begun today should consider the trade data reported under past and present classification systems.

Fourth, trade data classification systems can also assist exporters in cross-referencing the export data reported under the different systems. Every commodity description is represented by a number code. More specific commodities within each description are represented by digits added to the original code. As the number of digits increases, the commodity description associated with that code becomes more specific. For example, the SIC codes in the *Standard Industrial Classification Manual* reach 4 digits. The Department of Commerce uses its own SIC-based product coding system that reaches 7 digits of detail.

If your company manufactures pneumatic actuated control valves and you were using the DOC coding system, you would find the most relevant trade data at the 7-digit level than at the 4-digit (SIC) level. By knowing the most specific codes representing your goods, you can find the most relevant foreign trade data. Also, by identifying the possible SIC codes for your goods, you might be able to obtain the most favorable duty rate.

OBJECTIVE 2

1. e
2. c
3. b
4. d
5. a
6. f

OBJECTIVE 3

1. CIMS
2. IMR
3. FET
4. OBR
5. FT410
6. ISA
7. Trade leads
8. International Market Reports

UNIT OBJECTIVES

MARKET BARRIERS

5

INTRODUCTION

Tariff barriers and nontariff barriers (NTBs) existing in a foreign market can affect the cost of exporting to that market. If large enough, a tariff barrier can affect the competitiveness of the U.S. manufacturer's price in the foreign market. The different types of nontariff barriers also affect export transactions in special ways. Because market barriers are different for different countries and markets, U.S. companies should investigate market barriers while as a part of their market research activities.

UNIT OBJECTIVE

After completing this unit, you should be able to define tariff and nontariff barriers and anticipate the effects of particular nontariff barriers on export sales. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you will be able to

1. Match terms associated with market barriers with their correct definitions.
2. Explain the effects of NTBs.
3. Explain the purpose of the GATT.

PREPARATION

- Order additional materials to supplement this unit.

Publications

  - *A Basic Guide to Exporting* (Current edition). Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; or contact Department of Commerce district offices.
  - SBA Fact Sheet "The U.S.-Canada Free Trade Agreement." Available from the Small Business Administration.

NOTE: Also see the Unit References.

- Review the unit and plan your presentation:
  - Estimate the amount of material that can be covered in each class session.
  - Plan for appropriate Assignments.
  - Identify objectives that you can supplement with other resources.
  - Invite guest speakers in advance.

    EXAMPLE: Area exporters, Department of Commerce specialists, CITD trade specialists/analysts

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities.

DELIVERY

Objectives 1 and 2

- Compare the term "bilateral" with the terms "unilateral" and "multilateral."
- Explain how each type of nontariff barrier could screen out exports to the target market or make the U.S. manufacturer's price noncompetitive.

- After discussing types and examples of market barriers, quiz participants by describing a barrier and asking for the type: tariff or nontariff.

Objective 3

- *Identify sources of information about the GATT and the "contracting parties."*
- Use a map to identify the current list of "contracting parties" to the GATT.
- Refer to Supplement 1. Discuss selected questions.

EVALUATION

- Give the Quick Check soon after presenting the unit.
- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- *A Basic Guide to Exporting*, U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service. September 1986.
- "IMAP" workshops (International Management Assistance Program), offered by the Center for International Trade Development (CITD), Oklahoma State University.
- "Fundamentals of Exporting" and "Export Marketing" workshops, offered by Oklahoma International Export Services (OIES), a joint program of the Oklahoma Department of Commerce and the U.S. and Foreign Commercial Service of the U.S. Department of Commerce.
- "United States and Canada Form World's Largest Free Trade Area," by Ann H. Hughes, in *Business America* magazine, U.S. Department of Commerce. January 30, 1989.

SPECIFIC OBJECTIVES

MARKET BARRIERS

5

OBJECTIVE 1

Match terms associated with market barriers with their correct definitions.

Free Trade Agreement (FTA)—A bilateral (two-party) trade agreement

EXAMPLE: The U.S.-Canada Free Trade Agreement

General Agreement on Tariffs and Trade (GATT)—An international treaty created to help promote world trade by reducing trade barriers between the parties to the treaty

Nontariff barrier (NTB)—A "burden" to imports created by the government and/or private sectors in the target market country that effectively screens out imports to the target market or makes the import noncompetitive in price

Tariff barrier—An additional monetary assessment on imports created by the target market country and applied per unit of the import, assessed on the total value of the imports, or both; acts as a "barrier" when it is large enough to make the exporter's price noncompetitive in the target market

EXAMPLE: Duties, value-added taxes (VAT)

OBJECTIVE 2

Explain the effects of NTBs.

NOTE: Each type of NTB can also add to the cost of exporting the good or service.

- IMPORT QUOTAS—Limit the amount or type of an item that can be imported
- PRODUCT STANDARDS AND/OR TESTING REQUIREMENTS—Increase the uncertainty of success in meeting the requirements, such as requiring metric equivalents or an inspector who must be "locally qualified"

FOR YOUR INFORMATION
Purposes of the U.S.-Canada Free Trade Agreement

NOTE: The following paragraph is not a complete explanation of the U.S.-Canada Free Trade Agreement.

The provisions of the U.S.-Canada Free Trade Agreement (FTA) became effective January 1, 1989. The FTA is a bilateral agreement covering trade between the United States and Canada in goods, services and investment. Some U.S. companies neglect Canadian markets, possibly thinking of Canada as a "domestic" market due to the short distance and special trade relationship between Canada and the United States. However, U.S. exporters should consider Canada as a potential target market, since **Canada is America's largest trading partner and the U.S. is Canada's main supplier and major customer**. Canada offers many advantages to U.S. exporters, including a common language, geographic nearness, and similar business practices and culture.

Among its provisions, the FTA eliminates most tariffs (target market taxes on imports) on U.S.-Canada trade by 1998; eliminates import and export quotas, unless these are consistent with the GATT (General Agreement on Tariffs and Trade) or are allowed to remain by the FTA; expands federal procurement opportunities for suppliers from both countries; maintains a relatively open market in both countries for services; streamlines border-crossing procedures for business travelers, professionals, traders, investors, and intra-company transferees; provides for the removal of almost all barriers to energy trade between both countries, providing access to energy supplies and markets; and eliminates all tariffs and export subsidies on agricultural goods in both countries, and limits or eliminates the quantitative restrictions on some products.

The FTA also establishes a Canada-U.S. Trade Commission to settle disputes resulting from the Agreement, oversee future negotiations on the Agreement, and handle other matters affecting the operation of the FTA.

SOURCES: *Business America* magazine, January 30, 1989, and the SBA Fact Sheet "The U.S.-Canada Free Trade Agreement."

- LOCAL CONTENT REQUIREMENTS
  - Require disassembly and reassembly of the product by foreign workers
  - Require incorporation of locally-supplied components in the export product

- LICENSING REQUIREMENTS—Require import and other licenses

- DOCUMENTATION REQUIREMENTS—Require excessive and difficult documentation

- SAFETY/ENVIRONMENTAL STANDARDS

  - Increase the uncertainty of success in meeting the standards

  - Require product modifications

- LEGAL AND ADMINISTRATIVE PROCEDURES AND REGULATIONS—Can delay the export process

- NATIVE LANGUAGE REQUIREMENTS—Require an extensive native language content

- ACCESS TO FOREIGN EXCHANGE—May create a payment risk by limiting or denying the exporter's access to foreign currencies or by necessitating a potentially-cumbersome bartering arrangement

  NOTE: Changing exchange rates will affect prices and payments, unless you can demand payment in U.S. dollars.

- PAYOFFS/KICKBACKS/NON-LEGITIMATE PAYMENTS—Effectively block U.S. exporters from the target market due to required payments that conflict with requirements of the U.S. Foreign Corrupt Practices Act (FCPA)

  NOTE: Legitimate payments are not a barrier. However, any payments that conflict with the FCPA are a barrier for U.S. exporters to the target market requiring the payments. See Unit 19 for more information about the FCPA and other legal issues.

- BOYCOTTS

  - Effectively block U.S. exporters from the target market due to target market participation in a boycott that violates U.S. antiboycott regulations

  - Block U.S. exporters from target markets that are the subject of a U.S.-supported boycott

OBJECTIVE 3

Explain the purpose of the GATT.

The "General Agreement on Tariffs and Trade," or GATT, represents an international approach to trade relations. The GATT as an international treaty was created to help promote world trade by reducing trade barriers between the "contracting parties" to the treaty. The contracting parties include over 90 countries representing over four-fifths of world trade. The GATT also provides rules and procedures regulating international trade relations and serves as a meeting place for negotiating trade questions. The contracting parties revise the agreement through rounds of negotiations ("Uruguay round", for example).

Although the GATT was originally intended to apply to products, the current trend is to include services and intellectual property.

CONSIDERATIONS FOR MARKET RESEARCH

Statistical market potential

Q What is the U.S. market share in the target market? (U.S. exports as share of target market imports)

Q Which markets are targets for other exporters of like or similar goods?

NOTE: Determine who is exporting similar goods and services, and to which markets they are exporting.

Q What is the projected growth rate of the market?

Q Is foreign demand consistent?

NOTE: Some target markets, for example, might require a mass infusion of import goods in order to complete a specific project in the market. However, when the project is completed, the demand for the goods no longer exists. Target markets that do not have a consistent demand for your goods or services can indicate the need for multiple target markets to ensure adequate export potential.

Q Can competitors benefit from strength factors such as nearness, political ties, common market ties, aid programs, and others?

NOTE: Competitors in the target market might benefit due to their nearness to the market, political associations with the market, common market affiliations, or participation in foreign aid programs (in the form of material assistance).

Buyer characteristics

Q How can you describe the types of foreign buyers: government, industrial, or consumer?

Q Can you identify dominant buyers?

Q How do potential buyers compare in terms of credit-worthiness?

Q Does the potential buyer have alternative uses for the goods?

Q How do cultural factors affect the potential of the goods in the target market?

Economic indicators

Q Is the currency fixed to the dollar or convertible?

Q Is currency available?

Q What is the inflation rate (%) and how could it affect sales of your goods?

Q Can potential buyers afford your goods?

Financing

Q Do you have access to foreign exchange?

Q Is the buyer's credit acceptable to you?

Q Is countertrade accepted?

Q Can you identify sources of export financing in the United States?

Goods/service requirements

Q Can your goods meet needs of specific segments in the foreign market?

Q Are modifications required for the target market?

EXAMPLE: Alternative uses; technical, safety, environmental or other standards; and others

Q Is service available in the foreign market?

Q Is the electrical system in use in the target market suitable for your goods (voltage requirements)?

Q Can your goods meet metric standards?

Distribution

Q How do other U.S. exporters in the market distribute their goods?

Q Does the foreign country have requirements for foreign representation?

Q What channels of distribution exist in the target market?

Q Can special distribution needs be met?

Q Does your company prefer specific distribution methods?

Competition

Q Can you identify the sources of target market competition?

EXAMPLE: U.S. companies, foreign companies outside the target market, and target market domestic competition

Q Have you identified any strength factors of the competition?

EXAMPLE: Pricing, service, promotion, financing methods (including countertrade), image, discounts, market share, and others

Q How does the competition distribute and sell in the target market?

Restrictions and/or barriers

Q What tariff/nontariff barriers apply in the foreign market?

Q On what basis are tariffs assessed?

EXAMPLE: On the basis of weight, CIF value, market value, invoice, or other basis

Q Does the foreign market assess import fees?

Q What export controls under the U.S. Export Administration Regulations relate to the goods to the particular foreign destination?

Q Are metric units a barrier?

Incentives

Q Does the foreign country offer income tax and other tax incentives to U.S. exporters?

Q Does the foreign country offer financing incentives to U.S. exporters?

Shipping and documentation

Q What modes of transportation are available to transport the goods from your company to the foreign buyer?

Q Which export documents are required for your shipment to the particular foreign destination?

Q What are the advantages and disadvantages of target market shipping and documentation requirements?

Intellectual property rights

Q Have you protected all intellectual property under all applicable U.S. laws?

Q Do common problems exist in the target market concerning the protection of intellectual property rights?

Q What are the laws, administrative practices, and treaty obligations of the foreign country?

QUICK CHECK

MARKET BARRIERS

5

Name ______________________________ Score ________

OBJECTIVE 1

Match terms associated with market barriers with their correct definitions. Write the correct letter in each blank.

____ 1. A "burden" to imports created by the government and/or private sectors in the target market country that effectively screens out imports to the target market or makes the import noncompetitive in price

____ 2. An international treaty created to help promote world trade by reducing trade barriers between the parties to the treaty

____ 3. A bilateral (two-party) trade agreement

____ 4. An additional monetary assessment on imports created by the target market country and applied per unit of the import, assessed on the total value of the imports, or both; acts as a "barrier" when it is large enough to make the exporter's price noncompetitive in the target market

a. Free trade agreement (FTA)

b. General Agreement on Tariffs and Trade (GATT)

c. Nontariff barrier (NTB)

d. Tariff barrier

OBJECTIVE 2

Explain the effects of NTBs. Choose six (6) types of nontariff barriers and briefly explain each.

1. ____

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2. ____

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3. ____

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4. ____

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5. ____

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6. ____

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OBJECTIVE 3 **Explain the purpose of the GATT.** Include as many main points as possible.

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QUICK CHECK ANSWERS

MARKET BARRIERS

5

OBJECTIVE 1

1. c
2. b
3. a
4. d

OBJECTIVE 2

Any six of the following:

- IMPORT QUOTAS—Limit the amount or type of an item that can be imported
- PRODUCT STANDARDS AND/OR TESTING REQUIREMENTS—Increase the uncertainty of success in meeting the requirements, such as requiring metric equivalents or an inspector who must be "locally qualified"
- LOCAL CONTENT REQUIREMENTS
  - Require disassembly and reassembly of the product by foreign workers
  - Require incorporation of locally-supplied components in the export product
- LICENSING REQUIREMENTS—Require import and other licenses
- DOCUMENTATION REQUIREMENTS—Require excessive and difficult documentation
- SAFETY/ENVIRONMENTAL STANDARDS
  - Increase the uncertainty of success in meeting the standards
  - Require product modifications
- LEGAL AND ADMINISTRATIVE PROCEDURES AND REGULATIONS—Can delay the export process
- NATIVE LANGUAGE REQUIREMENTS—Require an extensive native language content

- ACCESS TO FOREIGN EXCHANGE—May create a payment risk by limiting or denying the exporter's access to foreign currencies or by necessitating a potentially-cumbersome bartering arrangement

- PAYOFFS/KICKBACKS/NON-LEGITIMATE PAYMENTS—Effectively block U.S. exporters from the target market due to required payments that conflict with requirements of the U.S. Foreign Corrupt Practices Act (FCPA)

- BOYCOTTS

  - Effectively block U.S. exporters from the target market due to target market participation in a boycott that violates U.S. antiboycott regulations

  - Block U.S. exporters from target markets that are the subject of a U.S.-supported boycott

OBJECTIVE 3

The "General Agreement on Tariffs and Trade," or GATT, represents an international approach to trade relations. The GATT as an international treaty was created to help promote world trade by reducing trade barriers between the "contracting parties" to the treaty. The contracting parties include over 90 countries representing over four-fifths of world trade. The GATT also provides rules and procedures regulating international trade relations and serves as a meeting place for negotiating trade questions. The contracting parties revise the agreement through rounds of negotiations ("Uruguay round", for example).

Although the GATT was originally intended to apply to products, the current trend is to include services and intellectual property.

UNIT OBJECTIVES

INTERNATIONAL MARKETING PLAN

6

INTRODUCTION

Developing profitable markets may require more time for export sales than for domestic sales. Sales may fail to meet expectations until the goods have an established niche in the foreign market. Therefore, a long-term commitment to export sales can pay off. Your international marketing plan can encourage and support the commitment of management to export sales. In addition, your plan should establish your company's export goals, identify current and needed personnel and financial resources, evaluate your export strategies and outline your action programs to implement the plan. Management needs the international marketing plan in order to justify the commitment of company resources to export sales in addition to competing budget and other priorities. The international marketing plan needs management commitment in order to have an equal chance for success among other priorities.

UNIT OBJECTIVE

After completing this unit, you will be familiar with the purposes and the basic components of a written international marketing plan. Because the planning process is a continuous process, you should revise your plan as needed to meet the needs of your particular situation. Use this unit as a starting point. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you will be able to

1. Explain purposes of a written international marketing plan.
2. State basic guidelines for drafting an international marketing plan.
3. Outline each component of a written international marketing plan.

PREPARATION

- Order additional materials to supplement this unit.

  Publications

  - *A Basic Guide to Exporting* (Current edition). Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; or contact Department of Commerce district offices.

  NOTE: Also see the Unit References.

  Media

  - *Small Business Goes International.* Color, 20 minutes, St. Louis Community College at Forest Park. Focuses on small new-to-export firms and those still in the planning and negotiations stages. Features trade shows. Presents diverse product lines—from bagels to electrical equipment and motor vehicle parts. Highlights exporting to the Pacific Rim and Europe. Available from St. Louis Community College at Forest Park, Department of Business, 5600 Oakland Avenue, St. Louis, MO 63110. Call (314) 644-9747.

- Review the unit and plan your presentation:

  - Estimate the amount of material that can be covered in each class session.
  - Plan for appropriate Assignments.
  - Identify objectives that you can supplement with other resources.
  - Invite guest speakers in advance.

    EXAMPLE: Area exporters and CITD trade specialists/analysts

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities.

DELIVERY

Objective 1

- Discuss the benefits of a **written** international marketing plan: to show commitment to company export objectives; to guide in-house export personnel toward export objectives; to provide a way of evaluating strengths and weaknesses of company export strategies before committing resources; and others.
- Emphasize that the international marketing plan is a "working" plan and should be reviewed and updated as needed. Give examples of changing situations that could require a revised marketing plan.

Objectives 2-3

- Show how the components build upon each other. For example, the "Action Program" should support the needs identified in the other components.
- Compare the importance of a written marketing plan for export sales to a plan for domestic sales. How are they similar? How are they different?
- Refer to Supplement 1 and 2.

EVALUATION

- Give the Quick Check soon after presenting the unit.
- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- *A Basic Guide to Exporting*, U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service. September 1986.
- "IMAP" workshops (International Management Assistance Program), offered by the Center for International Trade Development (CITD), Oklahoma State University.
- "Fundamentals of Exporting" and "Export Marketing" workshops, offered by Oklahoma International Export Services (OIES), a joint program of the Oklahoma Department of Commerce and the U.S. and Foreign Commercial Service of the U.S. Department of Commerce.

OBJECTIVE 1

Explain purposes of a written international marketing plan.

Establish export goals—The marketing plan outlines company-specific and product-specific goals for foreign markets, based on an assessment of market research and other data.

EXAMPLE: Overall company objectives in international trade, objectives in specific markets, and profit (and loss) projections for the first three or four years in each foreign market; financial goals should include desired return on investment

Identify resources—The marketing plan should identify the required commitment of current and future personnel and financial resources for export operations, from in-house and external sources. The plan should evaluate in-house expertise and support any need for additional management or other skills.

EXAMPLE: The expected costs of additional production, sustainable minimum and maximum operating costs, cost of export inventory, available and required capital and financing, and the projected expenses of company activities to implement export strategies

Evaluate export strategies—The marketing plan should clearly define the company's export strategies for different components of the export sale, such as pricing, marketing, and distribution. The plan should allow management to evaluate the strengths and weaknesses in company export strategies before committing resources to export operations.

Outline action programs—The marketing plan should outline company activities for implementing export strategies. The plan should also identify controls on action programs, such as timetables and contingency plans.

EXAMPLE: What activities are needed, when each activity must be completed, who will assume specific responsibilities for each activity, and what resources must be committed to each

Obtain management commitment—The marketing plan must supply all of the information needed by management to decide whether to commit the company to export sales. The plan must justify a commitment to export sales as a company priority that will receive equal consideration among competing budget and development plans.

NOTE: Because export sales may not reach expected levels until the second, third, or fourth year, management must expect limited and breakeven sales before approaching projected profits.

OBJECTIVE 2

State basic guidelines for drafting an international marketing plan.

- Review company domestic operations.

  EXAMPLE: Production, finance, marketing, shipping and distribution, and others

- Organize market research data.
- Get qualified advice.
- Draft a company-specific written plan.
- Revise the plan as needed.

  NOTE: The marketing plan is a working plan that can be modified as your company gains export experience and obtains new information.

OBJECTIVE 3

Outline each component of a written international marketing plan.

See the following pages.

CURRENT MARKETING SITUATION

PURPOSE: Describes your domestic market and your position in that market, describes your domestic marketing mix, assesses your competitive position and establishes the need to "go international."

A. Description of domestic market

B. Review of domestic product mix

C. Assessment of competitive position

PROBLEMS AND OPPORTUNITIES

PURPOSE: Identifies the major problems and opportunities that you expect during the life of the export marketing plan. Includes your profile of the foreign buyer, the foreign market and the export potential of your goods and your company.

A. Problems

B. Opportunities

EXPORT OBJECTIVES

PURPOSE: Defines the goals of your international marketing plan, including the key issues affecting those goals.

A. Marketing objectives

.B. Financial objectives

C. Key issues

MARKETING STRATEGIES

PURPOSE: Identifies the main steps needed to reach the goals of your international marketing plan, including the reasons for each step. These reasons should also account for the problems, opportunities and key issues that you have identified in the other components of the plan.

A. Overall strategy

B. Target market strategies (if appropriate)

C. Functional area strategies

ACTION PROGRAMS

PURPOSE: Explains your specific company plans for implementing your identified marketing strategies. This component assigns export responsibilities to the appropriate in-house functional areas, identifies needed outside expertise and sources of assistance (such as freight forwarders and international banking specialists), and presents a budget for individual action programs and the total export operation.

A. Product line

B. Product-specific marketing programs

C. Sales-specific marketing programs

D. Communications programs

E. Distribution/inventory programs

F. Terms of sale

G. Parts and service programs

H. Modification/adaptation programs

I. Market research programs

J. Budgets

PROFIT PROJECTION

PURPOSE: Identifies your projected export sales, gross margins and the profit contribution of export sales.

A. Gross margin objectives

B. Action program costs

C. Targeted profit contribution of export sales

CONTROLS

PURPOSE: Establishes timetables, evaluation criteria and contingency plans for each action program.

A. Timetables

B. Evaluation criteria

C. Contingency plans

EXPORT SKILLS AND RESPONSIBILITIES PROFILES

DIRECTIONS

- For each listed export skill/knowledge area, check whether the skill is an in-house skill, an outside skill, or whether assistance is needed.
- Describe the possible responsibilities of in-house personnel for export operations. These responsibilities should cover the in-house skills identified on the "Export Skills Checklist."
- For outside skills, identify the skill/knowledge area and the source of the skill.
- Use this completed Supplement to help design export job descriptions for in-house export personnel.

EXPORT SKILLS AND RESPONSIBILITIES PROFILES

EXPORT SKILLS CHECKLIST

IN-HOUSE SKILL?	OUTSIDE SKILL?	ASSISTANCE NEEDED?	SKILL/KNOWLEDGE AREA
______	______	______	Management/supervisory/organizational/ planning
______	______	______	Accounting
______	______	______	Order-processing/recordkeeping
______	______	______	Market research
______	______	______	Compliance responsibilities
______	______	______	Legal issues
______	______	______	International banking
			Communications:
______	______	______	Writing
______	______	______	Foreign language(s)
______	______	______	Negotiating/contracting
______	______	______	Pricing
______	______	______	Marketing/promotion
______	______	______	Financing, payment and collection
______	______	______	Shipping documentation
______	______	______	Freight forwarding/shipping
______	______	______	Product servicing
______	______	______	Foreign travel
______	______	______	______________________________
______	______	______	______________________________

EXPORT SKILLS AND RESPONSIBILITIES PROFILES

IN-HOUSE EXPORT RESPONSIBILITIES

EXPORT RESPONSIBILITY (SKILL/KNOWLEDGE AREA)	NAME

EXPORT SKILLS AND RESPONSIBILITIES PROFILES

OUTSIDE EXPORT RESPONSIBILITIES

EXPORT RESPONSIBILITY (SKILL/KNOWLEDGE AREA)	SOURCE

INTERNATIONAL MARKETING PLAN COMPONENT CONSIDERATIONS

CURRENT MARKETING SITUATION

A. Description of domestic market

- Market definition
- Market segments
- Summary of sales activity (5-year profile in years and/or dollars)
- Sales cycles
- Channels of distribution

B. Review of domestic product mix

- Current product line
- Costs, prices and gross margins
- Life cycles (per product in product line)
- Special product features
- Service requirements and options
- Property rights protection
- Complementary goods or services (yours or other)

C. Assess competitive position

- Major domestic competitors
- Competitive advantages and disadvantages
- Comparison of market share

PROBLEMS AND OPPORTUNITIES

A. Problems

- Internal problems
- External problems
- Potential solutions

B. Opportunities

EXPORT OBJECTIVES

A. Marketing objectives

- Short-term objectives (ranked)
- Long-term objectives (ranked)
- Unit volume or market share (projected)

B. Financial objectives

- Short-term objectives (ranked)
- Long-term objectives (ranked)
- Sales,gross margins, ROI (projected)
- Profit (projected)

C. Key issues

- Length of the export marketing plan
- Short-term and long-term issues during the length of the plan

MARKETING STRATEGIES

A. Overall strategy

- Response to identified problems
- Response to identified opportunities
- Response to key issues

B. Target market strategies (if appropriate)

- Target market objectives
- Market entry alternatives
- Channels of distribution

C. Functional area strategies

- Product/service requirements: modifications, conversions (measurement, standards, language, etc.), packaging and labeling
- Sales: direct vs. indirect
- Distribution/inventory
- Parts, service and training
- Communications: advertising, promotion, public relations
- Pricing
- Financing
- Payment and collection
- Order processing

ACTION PROGRAMS

A. Product line

- Description of export product line
- Unit selling price per product
- Terms of sale
- Unit gross margin ($ and %) per product

B. Product-specific marketing programs

- Special features/uniqueness
- Special offers
- Warranties
- Complementary goods/services (yours or other)
- Promotional/service literature

C. Sales-specific marketing programs

- Market-specific entry alternatives
- Product responsibilities
- Functional responsibilities (in-house)
- Functional responsibilities (outside)
- Sales training programs: in-house and foreign sales personnel

D. Communications programs

- Advertising
- Promotion
- Public relations
- Translations/cross-cultural communication
- Responding to foreign inquiries
- Responsibilities and coordination

E. Distribution/inventory programs

- Inventory requirements: adequate? expansion?
- Inventory sites and policies
- Freight forwarding

F. Terms of sale

G. Parts and service programs

- Service requirements for the marketing mix
- Service alternatives
- Parts
- Warranties
- Training

H. Modification/adaptation programs

- Adaptations for market standards (measurement, standards, language, etc.)
- Adaptations for alternative uses
- Product-improvement

I. Market research programs

- Tracking market trends
- Monitoring specific action programs (effectiveness)
- Identifying and evaluating new opportunities

J. Budgets

- Action program budgets
- Total export budget

PROFIT PROJECTION

A. Gross margin objectives

B. Action program costs

C. Targeted profit contribution of export sales

CONTROLS

A. Timetables

B. Evaluation criteria

C. Contingency plans

QUICK CHECK

INTERNATIONAL MARKETING PLAN 6

Name ______________________________ Score __________

OBJECTIVE 1

Explain purposes of a written international marketing plan.
Choose four (4) purposes and briefly explain each.

1. ______________________________

2. ______________________________

3. ______________________________

4. ______________________________

OBJECTIVE 2

State basic guidelines for drafting an international marketing plan. State four (4) guidelines.

1. ____________________

2. ____________________

3. ____________________

4. ____________________

OBJECTIVE 3

Outline each component of a written international marketing plan. Provide the missing elements in the outline.

CURRENT MARKETING SITUATION

A. ____________________

B. ____________________

C. ____________________

PROBLEMS AND OPPORTUNITIES

A. ____________________

B. ____________________

EXPORT OBJECTIVES

A. ____________________

B. ____________________

C. ____________________

MARKETING STRATEGIES

A. ____________________

B. ____________________

C. ____________________

ACTION PROGRAMS

A. ____________________

B. ____________________

C. ____________________

D. ____________________

E. ____________________

F. ______________________________

G. ______________________________

H. ______________________________

I. ______________________________

J. ______________________________

PROFIT PROJECTION

A. ______________________________

B. ______________________________

C. ______________________________

CONTROLS

A. ______________________________

B. ______________________________

C. ______________________________

OBJECTIVE 1

Any four of the following:

Establish export goals—The marketing plan outlines company-specific and product-specific goals for foreign markets, based on an assessment of market research and other data.

Identify resources—The marketing plan should identify the required commitment of current and future personnel and financial resources for export operations, from in-house and external sources. The plan should evaluate in-house expertise and support any need for additional management or other skills.

Evaluate export strategies—The marketing plan should clearly define the company's export strategies for different components of the export sale, such as pricing, marketing, and distribution. The plan should allow management to evaluate the strengths and weaknesses in company export strategies before committing resources to export operations.

Outline action programs—The marketing plan should outline company activities for implementing export strategies. The plan should also identify controls on action programs, such as timetables and contingency plans.

Obtain management commitment—The marketing plan must supply all of the information needed by management to decide whether to commit the company to export sales. The plan must justify a commitment to export sales as a company priority that will receive equal consideration among competing budget and development plans.

OBJECTIVE 2

Any four of the following:

- Review company domestic operations.
- Organize market research data.
- Get qualified advice.
- Draft a company-specific written plan.
- Revise the plan as needed.

OBJECTIVE 3

CURRENT MARKETING SITUATION

A. Description of domestic market

B. Review of domestic product mix

C. Assess competitive position

PROBLEMS AND OPPORTUNITIES

A. Problems

B. Opportunities

EXPORT OBJECTIVES

A. Marketing objectives

B. Financial objectives

C. Key issues

MARKETING STRATEGIES

A. Overall strategy

B. Target market strategies (if appropriate)

C. Functional area strategies

ACTION PROGRAMS

A. Product line

B. Product-specific marketing programs

C. Sales-specific marketing programs

D. Communications programs

E. Distribution/inventory programs

F. Terms of sale

G. Parts and service programs

H. Modification/adaptation programs

I. Market research programs

J. Budgets

PROFIT PROJECTION

A. Gross margin objectives

B. Action program costs

C. Targeted profit contribution of export sales

CONTROLS

A. Timetables

B. Evaluation criteria

C. Contingency plans

UNIT OBJECTIVES

EXPORT SALES

7

INTRODUCTION

Export sales can be indirect or direct. Companies can generate export sales by using both indirect and direct exporting, depending on the goods and the target markets. Whether the sale is indirect or direct, you will probably communicate in different ways with foreign contacts. Effective "cross-cultural" communication involves skills that can be learned.

UNIT OBJECTIVE

After completing this unit, you will be able to distinguish between indirect and direct exporting. You will also be familiar with different methods of indirect and direct export sales, as well as guidelines for international negotiations. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you will be able to

INTERMEDIARIES

1. Distinguish among functions of foreign sales agents and foreign distributors.
2. Identify sources useful in locating and qualifying foreign contacts.
3. List in order basic steps in developing potential foreign agents and distributors.

INTERNAL PREPARATION

4. Outline the basic contents of a cover letter when responding to a foreign inquiry.
5. List common elements of an international sales program.
6. State basic guidelines for evaluating export sales options.
7. State manufacturer's responsibilities to foreign agents and distributors.

CONTRACTING

8. List possible consequences of terminating agreements for foreign representation.
9. Identify characteristics of foreign agency termination laws.

NEGOTIATING

10. Explain the importance of cross-cultural communication in international negotiations.
11. List reasons for visiting foreign markets.
12. State basic guidelines for negotiating.
13. Prepare a cover letter responding to a foreign inquiry. (Assignment 1)

EXPORT SALES

PREPARATION

- Order additional materials to supplement this unit.

Publications

– *A Basic Guide to Exporting* (Current edition). Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; through Government Bookstores; or contact Department of Commerce district offices.

– *Culturgrams: The Nations Around Us* (Volume I: North America, South America, Western Europe, and Eastern Europe. Volume II: Middle East, Asia, Africa, and the Pacific Areas.) Bound volumes available from the Garrett Park Press, P.O. Box 190B, Garrett Park, Maryland 20896 (301/946-2553); or from Intercultural Press, Inc., P.O. Box 768, Yarmouth, Maine 04096 (207/846-5168). Individual or multiple copies of individual Culturgrams are available from Publications Services, David M. Kennedy Center for International Studies, Brigham Young University, 280 HRCB, Provo, Utah 84602 (801/378-6528).

NOTE: Also see the Unit References.

Media

– *The Dollars and Sense of Exporting*. Color, U.S. Department of Commerce. Contact your Department of Commerce district office.

– *Just North of the Border*. Color, 20 minutes, St. Louis Community College at Forest Park. Features export experiences of small businesses with Canada. The two main themes of this program are how to find and maintain good distributors. Available from St. Louis Community College at Forest Park, Department of Business, 5600 Oakland Avenue, St. Louis, MO 63110. Call (314) 644-9747.

– *Going International* (2-part videotape). Available from Copeland-Griggs Productions, 411-15th Avenue, San Francisco, California 94118 (415/668-4200).

  - *The International Marketing Mix*. Color, 20 minutes, St. Louis Community College at Forest Park. Addresses the importance of assessing export potential (product and personnel), placing the product in the right market in the right form, pricing, and promotion. Also discusses alternative ways of selling across international boundaries and the variety of public and private resources available for export assistance. Available from St. Louis Community College at Forest Park, Department of Business, 5600 Oakland Avenue, St. Louis, MO 63110. Call (314) 644-9747.

- Review the unit and plan your presentation:

  - Estimate the amount of material that can be covered in each class session.

  - Plan for appropriate Assignments.

  - Identify objectives that you can supplement with other resources.

  - Invite guest speakers in advance.

    EXAMPLE: Area exporters, DOC specialists, Vo-Tech export specialists, CITD trade specialists/analysts

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities in addition to the Assignments.

DELIVERY

Objective 1

- Explain how each source could lead to a foreign contact.

Objectives 2-5

- Design a scenario requiring participants, as exporters, to respond to or initiate an inquiry. Provide any needed company and product information, and have participants write a brief but complete response for your scenario. After all participants are finished, collect the responses and discuss them as a group.

- Display examples of foreign letterheads. Discuss the following information:

If you see	on correspondence from	it means
AB	Sweden	Incorporated
AG	West Germany	Incorporated
A/S	Norway	Incorporated
Cia.	Latin America	Company
Cie.	France	Company
GmbH	West Germany	Limited liability company
KK	Japan	Joint stock corporation
Ltda.	Latin America	Limited liability company
NV	Netherlands	Incorporated
Oy	Finland	Incorporated
PLC or Ltd	Britain	Public limited company
P.T.	Indonesia	Limited company
SA	France	Incorporated
S.A.R.L.	Brazil	Incorporated
SpA	Italy	Incorporated

- Refer to Supplement 1.

- Explain why each question is important for evaluating foreign sales agents and distributors. Ask participants to suggest additional questions.

- Review the discussion of export potential and company commitment to export sales. How do they affect export sales options?

- Introduce Assignment 1.

Objective 6

- Lead a group discussion comparing the expectations of the U.S. company and the foreign sales agent/distributor.

Objectives 7-8

- Explain the possible implications of each characteristic, including the potential **costs** to the U.S. company in the case that an agreement is terminated.

- Provide a sample contract. Evaluate the sample contract in terms of potential problems and/or the potential for dissatisfaction between the parties.

- Give examples of common disputes between the parties to a contract, then suggest alternatives to terminating the agreement. Compare the potential effects on sales in a foreign market after terminating an agreement with the effects on sales (and profit) if a disagreeable relationship is allowed to continue uncorrected.

Objective 9

- Give examples of opportunities for cross-cultural communication, such as letters, phone calls, and FAX machines.

Objective 10

- Invite area exporters to discuss their experiences in cross-cultural communication.

- Contact local colleges and universities for qualified guest speakers from departments such as international business or foreign languages. For example, a panel of international students could answer questions about the importance of cross-cultural communication as it relates to their country and culture.

Objective 11

- Give examples for each of the basic guidelines for negotiating.

- Discuss specific questions for assessing cultural differences.

- Invite persons from other cultures (such as through a local university or from the business community) to participate in role-playing with participants.

- Refer to Supplement 2.

Objective 12

- Emphasize the value of learning the "language of exporting," including terms and definitions.

APPLICATION

Objective 13

- Complete the Assignment as an in-class or take-home activity after discussing the related objectives.
- Review the related objectives before completing the Assignment, if needed.
- Create additional Assignments, as needed, to reinforce the objectives and/or to meet the needs of participants.

EVALUATION

- Give the Quick Check soon after presenting the unit and after completing the Assignment.
- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- *A Basic Guide to Exporting*, U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service. September 1986.
- "IMAP" workshops (International Management Assistance Program), offered by the Center for International Trade Development (CITD), Oklahoma State University.
- "Fundamentals of Exporting" and "Export Marketing" workshops, offered by Oklahoma International Export Services (OIES), a joint program of the Oklahoma Department of Commerce and the U.S. and Foreign Commercial Service of the U.S. Department of Commerce.
- "Export Now—It Makes Good Business Sense" booklet, U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service. March 1988.

SPECIFIC OBJECTIVES

EXPORT SALES

7

OBJECTIVE 1

Distinguish among functions of foreign sales agents and foreign distributors.

FUNCTION*	FOREIGN SALES AGENT	FOREIGN DISTRIBUTOR
Buy and sell for own account	NO	YES
Procures business for and on behalf of a U.S. principal	YES	NO
Assumes financial risk	NO	YES
Warehouses the goods	NO	USUALLY
Physically distributes the goods	NO	USUALLY
Provides after-sales service	SOMETIMES	OFTEN
Contributes toward advertising costs	NO	USUALLY
Can contractually bind a U.S. principal	SOMETIMES**	NO***

* This list may not be complete.

** The agent can only contractually bind a U.S. principal consistent with the agent's express or implied authority from the principal.

*** The distributor is a buyer or customer of the U.S. company, but in effect represents the U.S. company in the eyes of foreign end-users.

OBJECTIVE 2

Identify sources useful in locating and qualifying foreign contacts.

- Agent/Distributor Service (ADS)

  NOTE: ADS is a DOC program that, for a fee, locates and evaluates potential foreign agents or distributors for a U.S. company. It is the U.S. company's responsibility to contact the identified foreign representatives for more information or action. ADS also provides follow-up services such as guidance in writing correspondence, making agreements, obtaining information about local business practices and requesting background reports.

- Foreign Buyer Program

  NOTE: This is a DOC program that brings foreign buyers to selected U.S. trade shows and advises participating U.S. companies in meeting the needs of the visiting foreign representatives. Also see Unit 8.

- Foreign inquiries

  NOTE: Do not dismiss a foreign inquiry simply because the stationary appears to be of a lower quality, or because the letter might contain mistakes in grammar or typing. Standards for business communications in a foreign market might be different than in the United States. The inquiry might come from a reliable, established company.

- Foreign Traders Index
- Industry associations
- Matchmaker Trade Delegations

  NOTE: DOC Matchmaker Trade Delegations locate and evaluate potential foreign agents, distributors and other foreign representatives and schedule interviews overseas between the U.S. company and the prescreened foreign contacts. Also see Unit 8.

- Trade leads

  NOTE: A trade lead is a foreign offer to buy (or sell) a particular product or service. Also called "sales lead." Information often includes the name and address of the foreign contact, a description of the offer, preferred methods of payment, response guidelines, bid deadlines, and other data.

- New Product Information Service (NPIS)

  NOTE: NPIS publicizes new products directly in foreign markets through the monthly *Commercial News USA* magazine published by the US&FCS.

- Trade journals (advertising)
- Trade missions
- Trade shows (domestic and international)

- Oklahoma Export Assistance Program

  NOTE: See Unit 2 for a description of the Oklahoma Export Assistance Program.

OBJECTIVE 3

List in order basic steps in developing potential foreign agents and distributors.

1. Identify foreign contacts from all sources.
2. Prepare a cover letter.
3. Assemble attachments for the cover letter.

   When initiating an inquiry:

   — Your product, company and technical literature

   When responding to an inquiry:

   — Your international sales program

   — Your agent/distributor application

4. Send cover letter with attachments.
5. Acknowledge receipt of the returned and completed agent/distributor application.

   NOTE: If you approve the application, go to step 6. If you reject the application, then discuss any possible remaining opportunities for contacts between your company and the foreign contact.

6. Request basic financial information:

   — Credit references (from major suppliers)

   — Banking references

   NOTE: Avoid requesting financial or credit information in your **first** letter.

7. Identify your most promising contacts.
8. Visit and evaluate the foreign market.

   EXAMPLE: Assess the market, the agent/distributor, the agent's/distributor's facilities and personnel, and local references.

9. Approve or reject plans to negotiate a "trial period" agent/distributor agreement.

   NOTE: If you decide not to negotiate an agreement, then discuss any possible remaining opportunities for contacts between your company and the foreign contact.

OBJECTIVE 4

Outline the basic contents of a cover letter when responding to a foreign inquiry.

1. Thank the foreign contact for its interest or (if you initiate the inquiry) refer to the source of the sales lead.
2. Explain your export policy or situation.

   EXAMPLE: Statements such as "We have an agent/distributor in your country"

3. Describe and promote your goods, competitive advantages and facilities.
4. Refer to your attached product, company and technical literature and your international sales program.
5. Refer to your standard terms of sale, payment and collection policies, and any guarantees or warranties.

   NOTE: You can discuss these items in more detail if you decide to negotiate a "trial period" agent/distributor agreement.

6. State relevant packing and shipping information, including any special requirements.
7. State regular delivery times and assure prompt order processing.

   EXAMPLE: State "four (4) weeks from receipt of firm order" instead of "four (4) weeks."

8. Prompt the foreign contact for a timely response to your enclosed agent/distributor application.

XYZ COMPANY
P.O. Box 1234
Anytown, Oklahoma U.S.A. 74000
(918) 555-5678

22 April 1990
Hoffmann und Sohn
Postfach 180
D-8070 Ingolstadt
West Germany

Dear Mr. Hoffmann:

Thank you for your recent inquiry about XYZ Company and our line of control valves. I enjoyed speaking with you at the trade show last month in Cologne. Currently, XYZ is not represented in the Federal Republic of Germany. However, we are very interested in the sales potential for XYZ control valves in your markets.

XYZ control valves have been in use worldwide since 1967. Our valves primarily have water applications for municipal, industrial and irrigation industries. However, in contrast to other control valves now available, XYZ control valves also have petroleum-related applications. Our valves are manufactured to your specifications and can be supplied from our extensive warehousing facility. XYZ guarantees all of its control valves and related equipment. We also offer an attractive servicing agreement in addition to competitive prices and prompt order processing. The enclosed literature provides more specific information about XYZ Company and our products. I have also included our international sales program.

Quotations can be provided by telex, telefax, or mail. Quotations are normally made FOB or FAS, but can be made C&F or CIF. Complete export packing is also available at a reasonable cost. We assure delivery four (4) weeks from receipt of a firm order.

We would like to learn more about your firm and the sales potential for XYZ control valves in the Federal Republic of Germany. Please consider the enclosed agent/distributor application. Should you have any questions or need additional information, please contact me directly. I look forward to hearing from you soon.

Sincerely,

John A. Smith
Director, International Marketing

FIGURE 7-1. Sample cover letter responding to a foreign inquiry.

FOR YOUR INFORMATION

Hints for writing and calling foreign contacts

Writing

- Be polite and complimentary.
- Refer to the source of the contact (TOP, Matchmaker, ADS, etc.).
- Provide complete information about your goods and your company.

  IMPORTANT: A potential foreign agent/distributor has the right to expect detailed information. Remember that you are trying to establish a successful long-term business relationship.
- Write out a date (such as 22 September 1990).

  EXAMPLE: In most foreign countries, the date is written in the order DAY/MONTH/YEAR (instead of MONTH/DAY/YEAR as in the U.S.), often with a period between each group. For example, September 22, 1990 could appear as 22.09.90. A date written as 12.10.90 could be misleading!
- Address your letter to the appropriate person.

  NOTE: Be sure that the foreign address is complete. If you are responding to a foreign inquiry, check the address from the firm's letterhead and from their envelope.
- Sign each letter personally.
- Translate your completed letter before mailing (if possible).

Calling

- Inform the party in advance about your plans to call (if possible).
- Call appropriately for the time zone.
- Speak clearly at a consistent pace.

  NOTE: Avoid jargon, slang, abbreviations or technical terms.
- Listen for signs of misunderstanding.
- Take detailed notes.
- Review main points during the call and after the call (by letter, fax, etc.) if needed.

OBJECTIVE 5

List common elements of an international sales program.

- Effective dates
- Price quotations

  NOTE: See Unit 11 for more information.
- Packing—requirements, special requests, and costs

  NOTE: See Unit 15 for more information.
- Terms of sale/payment and collection policies

  NOTE: See Unit 11 and Unit 13 for more information.
- Minimum orders
- Order processing procedures and requirements
- Warranties and/or guarantees

  NOTE: See Unit 9 for more information.
- Returned goods policy
- General conditions

FOR YOUR INFORMATION

Common questions for assessing foreign sales agents and distributors

Q Has the agent/distributor completed and returned your agent/distributor application?

Q Has the agent/distributor provided the basic financial information that you requested?

Q What is the background of the company and its principal officers?

Q What is the financial position and credit history of the company?

Q Will the attention paid to your goods be affected by like or similar goods handled by the agent/distributor?

Q Are references available from U.S. exporters and banks?

Q Do the services provided meet your needs?

Q Does the agent/distributor cover your target markets?

Q How does the agent/distributor operate?

Q Does the agent/distributor have the facilities to perform your required services, and are those facilities conveniently located to provide the required services?

Q Is the agent/distributor willing and able to meet your special requirements or needs?

OBJECTIVE 6 **State basic guidelines for evaluating export sales options.**

- Assess the export potential of the product.
- Define the extent of company export commitment.

  NOTE: Consider available time, personnel, and financial resources for export activities.
- Determine company needs for foreign representation.
- Consult with qualified legal counsel before entering into any contract or agreement.
- Get a **written** agreement for any foreign representation.

FOR YOUR INFORMATION
Common provisions for intermediary contracts

IMPORTANT: Always consult qualified legal counsel before contracting.

- Description of the contracting parties
- Authentic text in dual-language contracts
- Effective dates and termination dates
- Products covered under the contract
- Territory covered under the contract
- Exclusive versus non-exclusive rights
- Customers excluded from the contract (but retained by the U.S. principal or manufacturer)
- Rights and obligations of parties
- Resale pricing policy
- Maintenance of service facilities
- Restrictions prohibiting the manufacture and sale of similar and competitive products
- Responsibilities for negotiating and/or policing patents and trademarks
- Method and basis of calculating compensation; discount/commission schedules
- Basis for termination of the agreement
- Choice of law and competent jurisdiction
- Formalities for execution and delivery
- Confidentiality
- Restriction prohibiting dealing with competitive firms
- Cannot make agreements binding the U.S. principal or manufacturer
- Inquiries from outside the territory to the U.S. principal or manufacturer

OBJECTIVE 7

State manufacturer's responsibilities to foreign agents and distributors.

NOTE: The contract between your company and the foreign agent/distributor should identify the responsibilities of both parties.

To train

- Train the agent/distributor about the product and its industry.
- Inform about successful selling and promotion techniques.

To communicate

- Communicate regularly.
- Respond promptly and completely.
- Announce any delays or other problems immediately.

To motivate

- Supply high-quality goods on time.
- Follow an ethical and bilateral agreement.
- Respond to changing demand.
- Act effectively and efficiently.
- Encourage visits to U.S. operations.
- Create and support special sales programs (if possible).

OBJECTIVE 8

List possible consequences of terminating agreements for foreign representation.

- Loss of goodwill
- Compensation for failing to give adequate notice of termination

  NOTE: Compensation could include all of the commissions accumulated during the notice period, or a continued salary for a specified period of time.

- Compensation for agent's or distributor's out-of-pocket expenses during the course of the agreement

- Damages incurred by the agent or distributor in dismissing its own employees
- Loss of undisposable inventory

OBJECTIVE 9 **Identify characteristics of foreign agency termination laws.**

NOTE: This list may not be complete and may not apply to all foreign agency termination laws.

- Tend to strengthen the position of the agent by permitting termination only for "just cause"
- May declare unwaivable any compensation or other rights of the agent granted by protective legislation
- Establish the law of the enacting state as the only applicable law governing the contract

  NOTE: This could invalidate your choice of law.
- Entitle agents to benefits of local labor laws governing dismissal and compensation by giving agents employee status
- Require the principal to give notice before the termination date

  NOTE: Some countries control the timing and the method of the termination notice.
- Allow the agent to contest a notice of termination by submitting the controversy to arbitration to determine "just cause"
- Allow the principal to refuse to extend an expired agency agreement only after a showing of "just cause"

FOR YOUR INFORMATION

Common provisions for limiting indemnity* payments

IMPORTANT: Always consult qualified legal counsel before contracting.

- Choose foreign representation carefully.

  NOTE: Direct exporting requires a greater commitment and involves greater risks for the exporter. Always evaluate potential foreign representatives carefully and completely.

- Account for potential liability in export prices.
- Be specific as to whether an agent/distributor is exclusive or non-exclusive.
- Specify responsibilities of the agent/distributor exactly by written contract.
- Clearly outline quantifiable performance criteria and standards.
- Define all contract terms clearly.

  NOTE: If possible, require that the English version of all terms will prevail in cases of doubt or controversy.

- Choose the law that will govern, preferably one that does not require termination payments.

  NOTE: If the "U.S." law will govern, choose the law of a particular state.

- Define "profits" and require verification of profit figures from agent's/distributor's appropriate income tax returns.
- Use a definite-term contract without automatic renewals.

  NOTE: Damages awarded to an appointee are usually based on the appointee's seniority. Therefore, a definite-term contract can allow you to evaluate the appointee's performance and reduce the amount of damages in case the appointee's performance is not satisfactory.

- Determine which events are just cause for terminating the contract.

  EXAMPLE: Bankruptcy, breach of contract, default

- Buy back inventory at cost upon termination.
- Consider whether the agent/distributor to act in corporate form.
- Obtain agent's/distributor's waiver of rights to indemnity payments (if allowed under foreign law).

*"Indemnity" means required compensation by the U.S. company to a foreign representative upon termination of an exporter-intermediary relationship, as specified under foreign agency termination laws.

OBJECTIVE 10

Explain the importance of cross-cultural communication in international negotiations.

The economies of countries around the world are increasingly dependent on foreign markets for buying and selling goods and services. American companies remain major world suppliers of consumer, industrial and agricultural products and services. Foreign markets are an important source of U.S. state and national economic development. American companies are also developing foreign markets and many have established foreign operations. With foreign markets becoming more competitive, U.S. companies must compete for sales and for market share in foreign markets. Both foreign and domestic sales depend on effective communication. However, the risk of misunderstanding (and lost sales) is greater when selling to foreign markets. Methods of doing business are different in other countries and cultures. Business practices that work in the United States might not work in other countries and cultures. Expectations can be different on each end of the bargaining table, telephone line, or FAX machine. Words and actions can have different meanings in a foreign culture. As a result, international negotiations can fail for cultural reasons as well as for technical reasons. To reduce the risk of misunderstanding, the U.S. company must assume responsibility for learning about the foreign culture. Americans (and other "foreigners" in another country) cannot expect feedback from foreign buyers. Cultural mistakes will probably not be corrected. Therefore, to remain competitive in the global economy, U.S. exporters must be prepared with the skills of cross-cultural communication to supplement technical skills. Cross-cultural communication skills can be a valuable competitive advantage. Companies as a whole must be culturally aware. Basic skills of cross-cultural communication can help to create and maintain a long-term export relationship, even if employees and their positions change over time. These skills can be learned.

OBJECTIVE 11

List reasons for visiting foreign markets.

- To attend foreign trade shows and trade fairs
- To assess potential agents, distributors and other foreign representatives
- To negotiate a contract
- To help maintain a long-term business relationship with agents, distributors and other foreign representatives
- To conduct country-specific market research

OBJECTIVE 12 **State basic guidelines for negotiating.**

PREPARING FOR THE NEGOTIATION

- Research the national, business and company cultures.

  EXAMPLE: Sources of information include, but are not limited to, the following: other exporters in the foreign market; international students at colleges and universities; published sources such as reports, speeches, magazine articles, books, and others; in-house files and personnel; DOC district offices; world trade associations; industry associations; international banking specialists; freight forwarders; and private consultants.

- Avoid scheduling meetings during inconvenient times.

  EXAMPLE: Foreign national holidays, religious holidays, traditional vacation periods, and others

- Expand your boundaries for reasonable bargaining.

  NOTE: Consider the needs of all parties involved.

- Be prepared for specific questions.

  NOTE: Know your product, processes, prices, terms of sale and other important information. Bring a supply of company and product brochures and other printed information, if available (in the appropriate foreign language, if possible).

- Be flexible.

  NOTE: Plan for all parties to "win."

- Bring plenty of business cards.

CONDUCTING THE NEGOTIATION

- Respect cultural differences.

- Be patient.

  NOTE: Respect different concepts of time. In many countries, the attitude that "time is money" is not acceptable.

- Communicate a personal interest.

  NOTE: Showing a personal interest in the foreign representative's business is part of creating a good working relationship.

- Avoid or limit jargon, slang, abbreviations or technical terms in spoken and written communication.

  NOTE: Define any terms that could be misunderstood.

- Speak clearly at a consistent pace.

- Avoid humor.

  NOTE: Unless you are very familiar with the foreign culture, you should avoid humor in your presentations. Attempts at humor can increase the risks of misunderstanding, offending or insulting the foreign party.

- Support written and spoken communication with appropriate graphics.

- Review main points often.

  EXAMPLE: Paraphrase and state ideas in different ways

- Watch and listen for signs of misunderstanding.

  EXAMPLE: Verbal and/or body language

- Negotiate within the rules of the foreign country, the United States, and your company.

FOLLOWING-UP THE NEGOTIATION

- Summarize results, decisions or agreements regularly.

- Maintain contact after the negotiation.

- Educate your company.

  NOTE: The company as a whole should understand and support the export relationship. The individual(s) negotiating the export sale must be backed by your company's long-term commitment to exporting.

FOR YOUR INFORMATION

The importance of business cards
in international business

Your business card is very important for conducting business in foreign countries. As in the United States, a business card in many countries is used as a way of introducing people, indicating position and/or status, and remembering names and maintaining contact by letter, phone or fax. However, business cards assume added importance in many countries. For example, a business card might represent the individual in a way similar to a resume, with academic and other credentials appearing on the card in addition to the basic information. In some countries, such as many in Asia, the presentation of a business card might involve a formal procedure similar to a ceremony.

Distributing and receiving business cards might involve a "right way" and a "wrong way" that can create a good impression or a bad impression on your foreign contact. For example, you might be showing disrespect for someone else's business card if you barely glance at the card after it is presented to you, or if you put the card in your pocket, an envelope or other holder that does not show respect for the card and the person it represents.

As the "foreigner" in another country, you should be familiar with the proper use of business cards in each country you are visiting. You should also be sure that your cards are printed in two languages: English and the appropriate foreign language.

COMMON QUESTIONS ON YOUR INTERNATIONAL AGENT/DISTRIBUTOR APPLICATION

COVER PAGE (Bilingual preferred)

1. Title of the document
2. "Confidential" marking
3. Brief statement of the purpose of the application
4. Address block for the foreign contact

QUESTION AND ANSWER PAGES (Bilingual)

Q What is the name of your company?

Q What is the main office address?

Q Do you have branch offices? In which cities?

Q What is your current business?

EXAMPLE: Wholesale, retail, manufacturer, commission agent

Q In what territory do you wish to represent our company/goods?

Q What are the principal selling centers in that territory?

Q How will you sell in those centers? Branch? Agent? Other?

Q What are the main product lines that you sell?

Q What are the names, addresses and telephone/telex numbers of other manufacturers that you represent?

Q How will our goods fit in with your current merchandise?

Q Which brands/models of these goods are used most in your area?

SOURCE: The Center for International Trade Development, Oklahoma State University.

Q Do you have traveling salespersons? How many?

Q Do you have people trained in demonstrating and servicing our goods?

Q Will you provide after-sales service?

Q Are you willing to send a representative to our site in Oklahoma for in-factory training, if needed?

Q Have you had experience with similar goods?

Q What is your estimate of the sales volume for our goods during one year?

Q What do you consider a reasonable stock of our goods for you to carry at all times?

Q Will you stock spare parts?

Q How would you briefly describe your repair shops, equipment yards, warehouse, showrooms, offices, etc.?

Q Will you advertise our goods?

Q What method of payment do you use?

Q Who are your bank connections in the United States?

Q Who are your local bank connections?

NOTE: More specific financial questions (beyond U.S. and local bank connections) may best be requested in a separate document that emphasizes specific financial (credit) questions and that accompanies the more general application form.

COMMON QUESTIONS FOR ASSESSING CULTURAL DIFFERENCES

The national culture

Q Are they group-oriented or individual-oriented?

Q What is their attitude toward the United States?

Q What is their concept of time? Are schedules fixed or flexible?

Q What are the basic greetings, farewells and important words in the native language?

Q What colors and gestures should be avoided? Should eye contact be maintained or avoided?

Q How loudly or softly do they speak?

Q What kinds of touching are appropriate and inappropriate?

Q What values are respected?

Q What is the role of women in society?

Q What subjects should be avoided in conversation?

Q What kinds of interpersonal networks exist? How can these networks influence business dealings?

Q What kinds of body language are acceptable and unacceptable? In what context?

Q Do social levels exist? How are they determined?

Q What other issues are important to them?

The business culture

Q What is their attitude toward work? Where is work in terms of their priorities?

Q When is business actually conducted—during negotiating sessions or outside?

Q What is the relationship between socializing and business?

Q What defines a business relationship?

Q How do meetings begin and end? How are they conducted?

Q What is proper business dress?

Q Is gift-giving important? When are gifts given? What kinds of gifts are given? When should gifts be opened?

Q Who has the decision-making authority? Are decisions made by individuals or groups?

Q What is the attitude toward women in business?

Q What are their negotiating strategies and tactics with foreigners?

Q How do they reach decisions? By a "gut feeling"? By reason?

Q Which approach is preferred—direct or indirect? Is business conducted through go-betweens?

Q What kinds of arguments are more persuasive than others?

Q What is the meaning of a written contract?

Q How important is the spoken word and the written word?

Q How are "yes" and "no" defined? In words? In actions?

Q Does silence have a special meaning?

Q What is the relationship between style and substance?

Q Are bribes or other payments a part of doing business? What is the difference between a bribe and a gift?

Q How are disputes settled?

The company culture

Q What is the company's history?

Q Does a hierarchy exist? Who has the decision-making authority?

Q What are company priorities or areas of emphasis?

Q What opportunities exist for mutual benefit?

Q Does the company have its own "rules" or etiquette?

Q How is the company perceived in its own country/community?

Q Who will negotiate—individuals or teams?

Q How have they acted in past negotiations? How have they responded to past offers?

Q What worked (and did not work)?

ASSIGNMENT 1 — EXPORT SALES 7

Name ______________________________ Score __________

OBJECTIVE 13

Prepare a cover letter responding to a foreign inquiry.

INTRODUCTION

After locating a foreign contact, you should evaluate the contact as a potential foreign sales agent or distributor for your export goods. When responding to a foreign inquiry, one of the first steps in evaluating a potential agent/distributor is to prepare a cover letter to send with enclosed documents such as your international sales program and agent/distributor application. In this Assignment, you will prepare a sample cover letter using given information about "your company" and the foreign contact.

DIRECTIONS

- Using the information given about "your company" and about the foreign contact, write or type a cover letter to the potential agent/distributor. Assume that you are enclosing your company's international sales program and agent/distributor application.

YOUR COMPANY

- Your company ("XYZ Company") and its product line of valves and pipe fittings, including pneumatic-actuated control valves, is not currently represented in Brazil.
- XYZ Company was established in 1978 and now serves foreign markets in South America and Europe.
- Your product line of valves and pipe fittings has primarily industrial applications. XYZ Company has a substantial warehousing facility in Oklahoma that is capable of supplying orders small or large.
- XYZ Company offers competitive prices and a conditional guarantee for all of its products. XYZ Company also services all of its products, or will provide training in the U.S. for local service personnel.
- Quotations are provided FOB or FAS by telex, telefax or mail. Complete export packing is available at a reasonable cost. XYZ Company assures prompt delivery within four weeks from receipt of a firm order.

- Your title is "Director, International Marketing." The address for XYZ Company is P.O. Box 1234, Anytown, Oklahoma 74000.

THE FOREIGN CONTACT

- You met the contact, Mr. Perez, at a trade show in Buenos Aires, Argentina three weeks ago. At that time, Mr. Perez expressed an interest in XYZ Company and its product line.
- Mr. Perez is the president of ABC S.A. and the address of his firm is Caixa Postal 5000, 01051 Sao Paulo, SP., Brazil.

______________________________:

ASSIGNMENT 1

TODAY'S DATE

ABC S.A.
Caixa Postal 5000
01051 Sao Paulo,
SP., Brazil

Dear Mr. Perez:

Thank you for your recent inquiry about XYZ Company and our line of valves and pipe fittings. I enjoyed speaking with you at the trade show three weeks ago in Buenos Aires. Currently, XYZ is not represented in Brazil. However, we are very interested in the sales potential for XYZ valves and pipe fittings in your markets.

XYZ Company was established in 1978 and now serves markets in South America and Europe. Our product line has primarily industrial applications. We can handle orders small or large from our extensive warehousing facility in Oklahoma. XYZ guarantees all of its valves and related equipment. We also service all of our products or will provide training in the United States for your service personnel. In addition, we offer competitive prices and prompt order processing. The enclosed literature provides more specific information about XYZ Company and our products. I have also included our international sales program.

Quotations can be provided by telex, telefax, or mail. Quotations are normally made FOB or FAS. Complete export packing is also available at a reasonable cost. We assure delivery four (4) weeks from receipt of a firm order.

We would like to learn more about your firm and the sales potential for XYZ valves and pipe fittings in Brazil. Please consider the enclosed agent/distributor application. Should you have any questions or need additional information, please contact me directly. I look forward to hearing from you soon.

Sincerely,

YOUR NAME

Director, International Marketing

QUICK CHECK	EXPORT SALES	7

Name ______________________ Score ________

OBJECTIVE 1

Distinguish among functions of foreign sales agents and foreign distributors. Complete the chart. Use the words "yes," "no," "sometimes," "usually," and "often."

FUNCTION*	FOREIGN SALES AGENT	FOREIGN DISTRIBUTOR
Buy and sell for own account	________	________
Procures business for and on behalf of a U.S. principal	________	________
Assumes financial risk	________	________
Warehouses the goods	________	________
Physically distributes the goods	________	________
Provides after-sales service	________	________
Contributes toward advertising costs	________	________
Can contractually bind a U.S. principal	________	________

* This list may not be complete.

** The agent can only contractually bind a U.S. principal consistent with the agent's express or implied authority from the principal.

*** The distributor is a buyer or customer of the U.S. company, but in effect represents the U.S. company in the eyes of foreign end-users.

OBJECTIVE 2

Identify sources useful in locating and qualifying foreign contacts. Write an "X" in the blank beside each source.

____ 1. Agent/Distributor Service (ADS)

____ 2. Freight forwarders

____ 3. Foreign Buyer Program

____ 4. Foreign inquiries

____ 5. Foreign Traders Index

___ 6. Industry associations

___ 7. World trade associations

___ 8. Matchmaker Trade Delegations

___ 9. Trade leads

__ 10. New Product Information Service (NPIS)

__ 11. Trade journals (advertising)

__ 12. Trade missions

__ 13. Trade shows (domestic and international)

__ 14. Oklahoma Export Assistance Program

__ 15. International banking specialists

OBJECTIVE 3

List in order basic steps in developing potential foreign agents and distributors. Write the correct numbers 1-9 in the blanks.

____Visit and evaluate the foreign market.

____Identify foreign contacts from all sources.

____Request basic financial information.

____Prepare a cover letter.

____Assemble attachments for the cover letter.

____Send cover letter with attachments.

____Acknowledge receipt of the returned and completed agent/distributor application.

____Identify your most promising contacts.

____Approve or reject plans to negotiate a "trial period" agent/distributor agreement.

OBJECTIVE 4

Outline the basic contents of a cover letter when responding to a foreign inquiry. List six (6) items included in the cover letter.

1. ____

____

212

2. ______________________________

____

3. ______________________________

____

4. ______________________________

____

5. ______________________________

____

6. ______________________________

____

OBJECTIVE 5

List common elements of an international sales program.
List seven (7) common elements.

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________
5. ______________________________
6. ______________________________
7. ______________________________

OBJECTIVE 6

State basic guidelines for evaluating export sales options.
State three (3) guidelines.

1. ______________________________

____

2. ______________________________

____

3. ______________________________

____

OBJECTIVE 7

State manufacturer's responsibilities to foreign agents and distributors. State seven (7) responsibilities.

1. ____
2. ____
3. ____
4. ____
5. ____
6. ____
7. ____

OBJECTIVE 8

List possible consequences of terminating agreements for foreign representation. List three (3) possible consequences.

1. ____
____
2. ____
____
3. ____
____

OBJECTIVE 9

Identify characteristics of foreign agency termination laws. Write an "X" in the blank beside each characteristic.

____ 1. Tend to strengthen the position of the agent by permitting termination only for "just cause"

____ 2. May declare unwaivable any compensation or other rights of the agent granted by protective legislation

____ 3. Establish the law of the enacting state as the only applicable law governing the contract

____ 4. Specify responsibilities of the agent/distributor exactly

____ 5. Entitle agents to benefits of local labor laws governing dismissal and compensation by giving agents employee status

____ 6. Require the principal to give notice before the termination date

____ 7. Allow the agent to contest a notice of termination by submitting the controversy to arbitration to determine "just cause"

____ 8. Specify a definite-term contract

____ 9. Allow the principal to refuse to extend an expired agency agreement only after a showing of "just cause"

OBJECTIVE 10

Explain the importance of cross-cultural communication in international negotiations. Include as many main points as possible.

____

____

____

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____

OBJECTIVE 11

List reasons for visiting foreign markets. List three (3) reasons.

1. ____
2. ____
3. ____

OBJECTIVE 12

State basic guidelines for negotiating. State ten (10) guidelines.

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________
5. ______________________________
6. ______________________________
7. ______________________________
8. ______________________________
9. ______________________________
10. ______________________________

NOTICE

The objective listed below is not part of the Quick Check.

OBJECTIVE 13

Prepare a cover letter responding to a foreign inquiry. SCORE ________

QUICK CHECK ANSWERS

EXPORT SALES

7

OBJECTIVE 1 See the chart below:

FUNCTION*	FOREIGN SALES AGENT	FOREIGN DISTRIBUTOR
Buy and sell for own account	NO	YES
Procures business for and on behalf of a U.S. principal	YES	NO
Assumes financial risk	NO	YES
Warehouses the goods	NO	USUALLY
Physically distributes the goods	NO	USUALLY
Provides after-sales service	SOMETIMES	OFTEN
Contributes toward advertising costs	NO	USUALLY
Can contractually bind a U.S. principal	SOMETIMES**	NO***

* This list may not be complete.

** The agent can only contractually bind a U.S. principal consistent with the agent's express or implied authority from the principal.

*** The distributor is a buyer or customer of the U.S. company, but in effect represents the U.S. company in the eyes of foreign end-users.

OBJECTIVE 2 1, 3, 4, 5, 6, 8, 9, 10, 11, 12, 13, 14.

OBJECTIVE 3

8 Visit and evaluate the foreign market.

1 Identify foreign contacts from all sources.

6 Request basic financial information.

2 Prepare a cover letter.

3 Assemble attachments for the cover letter.

4 Send cover letter with attachments.

5 Acknowledge receipt of the returned and completed agent/distributor application.

7 Identify your most promising contacts.

9 Approve or reject plans to negotiate a "trial period" agent/distributor agreement.

OBJECTIVE 4

Any six of the following:

1. Thank the foreign contact for its interest or (if you initiate the inquiry) refer to the source of the sales lead.
2. Explain your export policy or situation.
3. Describe and promote your goods, competitive advantages and facilities.
4. Refer to your attached product, company and technical literature and your international sales program.
5. Refer to your standard terms of sale, payment and collection policies, and any guarantees or warranties.
6. State relevant packing and shipping information, including any special requirements.
7. State regular delivery times and assure prompt order processing.
8. Prompt the foreign contact for a timely response to your enclosed agent/distributor application.

OBJECTIVE 5

Any seven of the following:

- Effective dates
- Price quotations
- Packing—requirements, special requests, and costs
- Terms of sale/payment and collection policies
- Minimum orders
- Order processing procedures and requirements
- Warranties and/or guarantees
- Returned goods policy

- General conditions

OBJECTIVE 6

Any three of the following:

- Assess the export potential of the product.
- Define the extent of company export commitment.
- Determine company needs for foreign representation.
- Consult with qualified legal counsel before entering into any contract or agreement.
- Get a **written** agreement for any foreign representation.

OBJECTIVE 7

Any seven of the following:

- Train the agent/distributor about the product and its industry.
- Inform about successful selling and promotion techniques.
- Communicate regularly.
- Respond promptly and completely.
- Announce any delays or other problems immediately.
- Supply high-quality goods on time.
- Follow an ethical and bilateral agreement.
- Respond to changing demand.
- Act effectively and efficiently.
- Encourage visits to U.S. operations.
- Create and support special sales programs (if possible).

OBJECTIVE 8

Any three of the following:

- Loss of goodwill
- Compensation for failing to give adequate notice of termination
- Compensation for agent's or distributor's out-of-pocket expenses during the course of the agreement

- Damages incurred by the agent or distributor in dismissing its own employees
- Loss of undisposable inventory

OBJECTIVE 9

1, 2, 3, 5, 6, 7, 9.

OBJECTIVE 10

The economies of countries around the world are increasingly dependent on foreign markets for buying and selling goods and services. American companies remain major world suppliers of consumer, industrial and agricultural products and services. Foreign markets are an important source of U.S. state and national economic development. American companies are also developing foreign markets and many have established foreign operations. With foreign markets becoming more competitive, U.S. companies must compete for sales and for market share in foreign markets. Both foreign and domestic sales depend on effective communication. However, the risk of misunderstanding (and lost sales) is greater when selling to foreign markets. Methods of doing business are different in other countries and cultures. Business practices that work in the United States might not work in other countries and cultures. Expectations can be different on each end of the bargaining table, telephone line, or FAX machine. Words and actions can have different meanings in a foreign culture. As a result, international negotiations can fail for cultural reasons as well as for technical reasons. To reduce the risk of misunderstanding, the U.S. company must assume responsibility for learning about the foreign culture. Americans (and other "foreigners" in another country) cannot expect feedback from foreign buyers. Cultural mistakes will probably not be corrected. Therefore, to remain competitive in the global economy, U.S. exporters must be prepared with the skills of cross-cultural communication to supplement technical skills. Cross-cultural communication skills can be a valuable competitive advantage. Companies as a whole must be culturally aware. Basic skills of cross-cultural communication can help to create and maintain a long-term export relationship, even if employees and their positions change over time. These skills can be learned.

OBJECTIVE 11

Any three of the following:

- To attend foreign trade shows and trade fairs
- To assess potential agents, distributors and other foreign representatives
- To negotiate a contract

- To help maintain a long-term business relationship with agents, distributors and other foreign representatives
- To conduct country-specific market research

OBJECTIVE 12

Any ten of the following:

- Research the national, business and company cultures.
- Avoid scheduling meetings during inconvenient times.
- Expand your boundaries for reasonable bargaining.
- Be prepared for specific questions.
- Be flexible.
- Bring plenty of business cards.
- Respect cultural differences.
- Be patient.
- Communicate a personal interest.
- Avoid or limit jargon, slang, abbreviations or technical terms in spoken and written communication.
- Speak clearly at a consistent pace.
- Avoid humor.
- Support written and spoken communication with appropriate graphics.
- Review main points often.
- Watch and listen for signs of misunderstanding.
- Negotiate within the rules of the foreign country, the United States, and your company.
- Summarize results, decisions or agreements regularly.
- Maintain contact after the negotiation.
- Educate your company.

UNIT OBJECTIVES

PROMOTION

8

INTRODUCTION

Promotion activities for new-to-export companies include activities used for establishing foreign agents and distributors and supporting appointed foreign agents and distributors. These activities can include attending international trade shows, distributing collateral materials, contacting prospects and customers, using direct mail, preparing press releases, and advertising.

UNIT OBJECTIVE

After completing this unit, you should be able to explain levels of promotion activities for export sales and discuss promotion methods suitable for each level. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you should be able to

1. Explain two basic levels of export promotion activities.
2. List possible promotion methods.
3. Identify key issues and related considerations for supporting appointed foreign agents and distributors.
4. Explain the importance of collateral materials to export promotion activities.
5. List reasons for participating in international trade shows.
6. Discuss considerations for international trade shows.
7. Define selected DOC promotion events.
8. State basic guidelines for promoting export sales.

PREPARATION

- Order additional materials to supplement this unit.

  Publications

  - *A Basic Guide to Exporting* (Current edition)
  - *How to get the most from Overseas Exhibitions*

  Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; or contact Department of Commerce district offices.

  NOTE: Also see the Unit References.

  Media

  - *The Dollars and Sense of Exporting*. Color, U.S. Department of Commerce. Contact your Department of Commerce district office.

- Review the unit and plan your presentation:
  - Estimate the amount of material that can be covered in each class session.
  - Plan for appropriate Assignments.
  - Identify objectives that you can supplement with other resources.
  - Invite guest speakers in advance.

    EXAMPLE: Area exporters, DOC specialists

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities.

DELIVERY

Objectives 1-2

- Discuss methods appropriate to each "phase."
- Prepare a sample press release.
- Distribute sample pages from the annual listing of international trade fairs in *Business America* magazine.

Objective 3

- Give examples of each issue.

Objective 4

- Provide examples of collateral materials for in-class discussion, or invite area exporters to present their materials used in promoting export sales.

Objectives 5-6

- Describe how trade show participants (or observers) can realize the different purposes of trade shows (and other promotion activities). For example, how could the U.S. company use a trade show to identify market preferences for the export goods? How could the company use a trade show to become familiar with established methods of business abroad?

- Ask participants for examples of trade shows in which they have participated or which they have observed, or give your own examples.

- Suggest a "calendar" for advance-planning of trade show participation. Design a checklist of important activities and their completion dates leading up to a trade show.

Objective 7

- Discuss how each DOC event can assist participants in "Phase 1" of their promotion activities.

Objective 8

- Explain why each guideline is important.

- Compare promotion strategies for domestic sales and for export sales.

EVALUATION

- Give the Quick Check soon after presenting the unit.

- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- *A Basic Guide to Exporting*, U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service. September 1986.
- "IMAP" workshops (International Management Assistance Program), offered by the Center for International Trade Development (CITD), Oklahoma State University.
- "Fundamentals of Exporting" and "Export Marketing" workshops, offered by Oklahoma International Export Services (OIES), a joint program of the Oklahoma Department of Commerce and the U.S. and Foreign Commercial Service of the U.S. Department of Commerce.
- "The ATA Carnet: Simplified Customs Procedures for Promotion Materials," by Barry K. Robinson, in *Business America* magazine, U.S. Department of Commerce. November 21, 1988.

OBJECTIVE 1

Explain two basic levels of export promotion activities.

Promotion activities for new-to-export companies are basically initiated in two phases. Phase 1 involves promotion activities used for **establishing** foreign agents and distributors. Phase 2 involves promotion activities used for **supporting** your appointed foreign agents and distributors. You can promote your goods in foreign markets by attending international trade shows, distributing collateral materials, contacting prospects and customers, using direct mail, preparing press releases, and advertising. Promotion activities for Phase 1 and Phase 2 may overlap. However, your activities are limited by factors such as your budget, your goals (establishing or supporting distribution), and the method of communicating your message to your audience(s). You should evaluate your export promotion activities in terms of establishing specific goals and reaching established goals using the proper methods.

OBJECTIVE 2

List possible promotion methods.

PHASE 1—ESTABLISHING FOREIGN AGENTS AND DISTRIBUTORS

- Distribute collateral material.

  EXAMPLE: Information that defines your company and your product, such as company and sales literature, metric product specifications and catalogs, price lists, videotape presentations and others

- Contact prospects.

  EXAMPLE: Potential foreign buyers identified through mailing lists, foreign inquiries, trade leads, DOC promotion activities, and other sources

- Prepare press releases for the trade press.

  EXAMPLE: To editors of the newspapers, magazines, journals and other publications whose readers are your prospects

- Attend international trade shows.

PHASE 2—SUPPORTING YOUR APPOINTED FOREIGN AGENTS AND DISTRIBUTORS

NOTE: Use the following methods in cooperation with your appointed foreign agent or distributor.

- Provide collateral material.
- Contact customers (yours and your agent's or distributor's).

  EXAMPLE: Past or present foreign buyers of your export goods

- Contact prospects.
- Use direct mail.

  EXAMPLE: Sending letters, announcements, collateral materials, newsletters or other materials directly to your audiences using their current addresses

- Prepare press releases for the trade press.
- Advertise.

  EXAMPLE: Use paid commercial messages in print and non-print media.

- Attend international trade shows.

OBJECTIVE 3

Identify key issues and related considerations for supporting appointed foreign agents and distributors.

USES OF EXISTING DOMESTIC MATERIALS

- Photographs
- Artwork
- Text
- Point-of-purchase materials
- Color separation
- Other existing materials

CULTURAL CONSIDERATIONS

- Colors
- Image
- Translations
- Other cultural considerations

PUBLIC RELATIONS MATERIALS

- Company requirements and guidelines for special PR events and materials

EXHIBITS

- Acceptable expenses
- Cost-sharing
- Qualifications/conditions

VIDEOTAPE PRESENTATIONS

- Voice-over for translated audio
- Other cultural considerations

NEW-MODEL INTRODUCTION PROGRAMS

POINT-OF-PURCHASE MATERIALS

INDUSTRY-SPECIFIC MATERIALS

COSTS AND COST-SHARING

- Acceptable expenses
- Company share of costs
- Agent/distributor share of costs
- Incentives for agent/distributor participation

OBJECTIVE 4

Explain the importance of collateral materials to export promotion activities.

Collateral material can help you on two "levels" of promotion for export sales. First, it can help you establish foreign agents or distributors. For example, you could send certain collateral materials with your cover letter when initiating contact with a potential agent or distributor, or when responding to a foreign inquiry. Second, it can support the promotion activities of your appointed agents or distributors in the foreign market. Collateral materials are also important because they allow you some control over the image of your company and product, as well as the theme of your promotion message, while being sensitive to the foreign culture. You may have already invested time and money in developing effective collateral materials for domestic sales. You can adapt these materials for export sales in different ways. Print and videotape information can be most effective if they are translated by a qualified technical translator.

You can also adapt your materials in terms of colors, image, voice-overs (on videotape presentations) and other culture-specific considerations. Collateral materials can be a valuable element in the business relationship between your company and your foreign representative. For example, you might offer your distributor a discount in exchange for the distributor's participation in preparing collateral materials and planning promotion activities. Or, you might consult with the distributor about important cultural considerations that could influence the design and use of your collateral materials.

OBJECTIVE 5

List reasons for participating in international trade shows.

- To become familiar with established methods of doing business in foreign markets

  EXAMPLE: Trade shows are well-attended overseas and are generally a more important method of doing business in foreign countries than in the U.S.

- To stimulate inquiries for sales or foreign representation

- To generate immediate sales/orders

- To identify market preferences

  NOTE: You could also identify the need for modifying export goods to satisfy market preferences.

- To create company name and product recognition in the foreign market

- To assess product offerings and competitor's prices
- To evaluate your promotional efforts in the market

OBJECTIVE 6

Discuss considerations for international trade shows.

One consideration for international trade shows is the type of show. A vertical trade show is limited to a specific industry-sector or type of product. An example is a computer hardware and software show. A horizontal trade show exhibits a variety of goods, such as a "Buy U.S." show. **A second consideration** is the audience that you want to reach. International trade shows can help you identify potential foreign agents/distributors. However, most international trade shows are not open to the general public. (For example, if your company sells consumer goods directly to the foreign end-user, then an international trade show might not result in a good return on the costs of participating in the show.) You should "target" your participation to those international trade shows that will reach your audience. In addition, many domestic (U.S.) trade shows today have an "international component." The global orientation of companies, industry associations and government agencies has attracted foreign visitors to trade shows in the United States. These visitors can include potential agents/distributors for your export goods. As a potential exporter, you should recognize the importance of international trade shows for identifying foreign agents/distributors. You should also be aware of the international component in domestic (U.S.) trade shows.

OBJECTIVE 7

Define selected DOC promotion events.

Catalog and Video/Catalog Exhibitions—Shows company catalogs or videotapes to potential foreign agents, distributors and other foreign representatives in selected world markets. Sales leads, visitor lists, and other results are forwarded to the company after the show. Priced per event.

NOTE: A video/catalog show allows you to exhibit and promote manufacturing processes and/or the actual end-uses of your goods. Contact your nearest DOC district office for more information.

Commercial News USA—A monthly export catalog-magazine distributed worldwide that promotes new U.S. products (those on the market less than three years) and established products and services in foreign markets. Priced per listing, depending on options.

NOTE: Contact your nearest DOC district office for more information.

Foreign Buyer Program—Brings foreign buyers to selected U.S. trade shows and advises participating U.S. companies in meeting the needs of the visiting foreign representatives. Priced per event.

Matchmaker Trade Delegations—Locates and evaluates potential foreign agents, distributors and other foreign representatives and schedules interviews overseas between the U.S. company and the prescreened foreign contacts. Priced per event.

NOTE: Participating companies must be represented by an individual having decision-making authority. Contact your nearest DOC district office for more information.

FOR YOUR INFORMATION

The ATA Carnet

The ATA Carnet is a standardized customs document, valid for one year, that gives the holder temporary duty-free admission of specific goods for display, demonstration, or other purposes into the countries that have signed an international agreement for that reason. The carnet is a series of vouchers that identify the goods and the countries into which the holder of the carnet will temporarily import the goods for display, demonstration, or other purposes. Each voucher is attached to an individual stub. The kinds of goods applicable to the ATA Carnet for U.S. commercial travelers include: commercial samples; tools of the trade; advertising material; and cinematographic, audiovisual, medical, scientific, or other professional equipment.

When leaving the U.S., the holder presents the carnet to a U.S. Customs Service Officer. The Customs Service will verify that the list is accurate and complete, then detach and keep one of the vouchers until the goods return to the United States. If the holder returns the goods listed on the carnet to the United States during the one-year period for which the carnet is valid, then the carnet will serve as the customs control document for the goods and no entry or duty payments will be applied.

As the holder of the carnet enters and leaves each country listed on the carnet, local customs authorities will detach and keep vouchers, and stamp and sign the appropriate stubs. The person holding the carnet is responsible for presenting the carnet to foreign customs authorities when entering or leaving a country, to allow for verification and notation of the vouchers and stubs.

SOURCE: Adapted from "The ATA Carnet: Simplified Customs Procedures for Promotion Materials," by Barry K. Robinson, in *Business America* magazine, U.S. Department of Commerce. November 21, 1988.

OBJECTIVE 8

State basic guidelines for promoting export sales.

- Get qualified advice.

  NOTE: Promotion activities are a business expense for export sales as well as for domestic sales. You should consider the options carefully **before** committing your resources.

- Design a unique promotion strategy for **export** sales.

  NOTE: Know your target markets. A domestic promotion strategy or message may or may not succeed in a foreign market. Use market research to help define a successful promotion strategy for export sales.

- Coordinate resources and activities with foreign representatives.

  NOTE: Foreign distributors, agents and others represent your firm and its goods in foreign markets. You can both benefit from cooperation in promoting export sales.

- Evaluate and revise promotion strategies or activities as needed.

  NOTE: Keep track of export sales as closely as domestic sales. Remember that a common mistake of potential exporters is neglecting export operations when the domestic market booms.

COMMON QUESTIONS FOR SUPPORTING APPOINTED AGENTS AND DISTRIBUTORS

Target market access

Q Are promotion options acceptable and available in the target market?

Q Do foreign representatives conduct promotion activities?

NOTE: Your foreign representatives in foreign markets may have established promotional activities. Agreements between exporters and foreign representatives could include provisions for sharing the costs and/or the responsibilities of promotion activities.

Cultural acceptance

Q Do promotional materials incorporate the foreign culture?

Q Are themes, words, graphics/illustrations, colors, and other design considerations accepted in the foreign culture?

Language

Q Are translations and translators needed?

NOTE: Exporters should use fluent native speakers of the foreign language(s) to translate spoken words and should also translate written materials into the appropriate foreign language(s). Market research should establish the need for translations, since language requirements can vary by country and by target market.

Q What qualified translators or translation services are available at the technical level, promotional level, or correspondence level?

IMPORTANT: You should choose the translator most qualified to provide the appropriate skill needed. For example, someone qualified to translate routine correspondence between your company and a foreign company might not be qualified to translate technical product specifications or other materials requiring a specialized vocabulary.

Q Can printed and spoken words and other promotion media be misinterpreted due to jargon, abbreviations, slang, or technical or other terms?

NOTE: Will the promotional "message" translate into the appropriate foreign language? Messages or themes may have a different **meaning** in a different language.

Resources

Q Do promotional materials meet your company objectives?

Q Are existing promotional materials adaptable to foreign markets?

Q Can your company provide financial or other support for the promotion activities of foreign representatives?

Q Is your company able and willing to commit time, financial, personnel and other resources to promotion activities for exports?

Q Are any lower-cost promotion options suitable to company export objectives?

GUIDELINES FOR PARTICIPATING IN INTERNATIONAL TRADE SHOWS

- Plan in advance to maximize trade show benefits.

  NOTE: Early registration can give you a better location at the trade show or allow you to be included in the show's own promotional materials. December or January issues of *Business America* magazine include a list of international trade fairs for the coming year.

- Schedule meetings in advance with key industry and government officials that can take place during the trade show.

- Know the appearance, size and location of the booth before planning a display.

- Know the type(s) of persons who will visit the show.

  NOTE: Can you reach your target audience at the show?

- Investigate shipping and carnet requirements for trade show materials.

  NOTE: Consider using a freight forwarder. Often, a trade show will have an "official" forwarder.

- In advance of the trade show, invite prospects to visit your booth.

  NOTE: Promote the booth in advance through local (overseas) trade associations, personal contacts, industry publications, ADS, commercial consulates at U.S. embassies, and other sources.

- Project a professional image.

  NOTE: Foreign trade shows are generally not consumer-oriented and are a more important method of doing business in foreign countries than in the U.S.

- Cover the booth at all times while the show is open.

- Have an in-house or outside interpreter available.

- Supplement goods on display with high-quality, translated collateral materials (including price information).

  NOTE: Get a professional translation, and check and cross-check the translations (especially for technical data). After having your materials translated into a foreign language, you should have someone else translate the material back into English, then compare the original and translated English copies.

- Follow-up on contacts during and after the show.

  EXAMPLE: Visit with likely prospects at the show, call on persons who did not attend, and contact prospects by letter from the U.S. after allowing time for them to evaluate the export goods exhibited.

QUICK CHECK

PROMOTION

8

Name ______________________ Score ________

OBJECTIVE 1

Explain two basic levels of export promotion activities. Include as many main points as possible.

OBJECTIVE 2

List possible promotion methods. List four (4) methods in Phase 1 and seven (7) methods in Phase 2.

Phase 1

1. ______________________

2. ______________________

3. ______________________

4. ______________________

Phase 2

1. ______________________________

2. ______________________________

3. ______________________________

4. ______________________________

5. ______________________________

6. ______________________________

7. ______________________________

OBJECTIVE 3

Identify key issues and related considerations for supporting appointed foreign agents and distributors. Identify six (6) key issues.

1. ______________________________

2. ______________________________

3. ______________________________

4. ______________________________

5. ______________________________

6. ______________________________

OBJECTIVE 4

Explain the importance of collateral materials to export promotion activities. Include as many main points as possible.

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OBJECTIVE 5

List reasons for participating in international trade shows. List five (5) reasons.

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________
5. ______________________________

OBJECTIVE 6

Discuss considerations for international trade shows. Include as many main points as possible.

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OBJECTIVE 7

Define selected DOC promotion events. Briefly define each event.

Catalog and Video/Catalog Exhibitions— ______________
____
____
____

Commercial News USA— ______________________________

____

____

____

Foreign Buyer Program— ______________________________

____

____

____

Matchmaker Trade Delegations— ______________________________

____

____

____

OBJECTIVE 8

State basic guidelines for promoting export sales. State three (3) guidelines.

1. ______________________________

____

2. ______________________________

____

3. ______________________________

____

QUICK CHECK ANSWERS

PROMOTION 8

OBJECTIVE 1

Promotion activities for new-to-export companies are basically initiated in two phases. Phase 1 involves promotion activities used for **establishing** foreign agents and distributors. Phase 2 involves promotion activities used for **supporting** your appointed foreign agents and distributors. You can promote your goods in foreign markets by attending international trade shows, distributing collateral materials, contacting prospects and customers, using direct mail, preparing press releases, and advertising. Promotion activities for Phase 1 and Phase 2 may overlap. However, your activities are limited by factors such as your budget, your goals (establishing or supporting distribution), and the method of communicating your message to your audience(s). You should evaluate your export promotion activities in terms of establishing specific goals and reaching established goals using the proper methods.

OBJECTIVE 2

Phase 1

- Distribute collateral material.
- Contact prospects.
- Prepare press releases for the trade press.
- Attend international trade shows.

Phase 2

- Provide collateral material.
- Contact customers (yours and your agent's or distributor's).
- Contact prospects.
- Use direct mail.
- Prepare press releases for the trade press.
- Advertise.
- Attend international trade shows.

OBJECTIVE 3

Any six of the following:

- USES OF EXISTING DOMESTIC MATERIALS
- CULTURAL CONSIDERATIONS
- PUBLIC RELATIONS MATERIALS
- EXHIBITS
- VIDEOTAPE PRESENTATIONS
- NEW-MODEL INTRODUCTION PROGRAMS
- POINT-OF-PURCHASE MATERIALS
- INDUSTRY-SPECIFIC MATERIALS
- COSTS AND COST-SHARING

OBJECTIVE 4

Collateral material can help you on two "levels" of promotion for export sales. First, it can help you establish foreign agents or distributors. For example, you could send certain collateral materials with your cover letter when initiating contact with a potential agent or distributor, or when responding to a foreign inquiry. Second, it can support the promotion activities of your appointed agents or distributors in the foreign market. Collateral materials are also important because they allow you some control over the image of your company and product, as well as the theme of your promotion message, while being sensitive to the foreign culture. You may have already invested time and money in developing effective collateral materials for domestic sales. You can adapt these materials for export sales in different ways. Print and videotape information can be most effective if they are translated by a qualified technical translator.

You can also adapt your materials in terms of colors, image, voice-overs (on videotape presentations) and other culture-specific considerations. Collateral materials can be a valuable element in the business relationship between your company and your foreign representative. For example, you might offer your distributor a discount in exchange for the distributor's participation in preparing collateral materials and planning promotion activities. Or, you might consult with the distributor about important cultural considerations that could influence the design and use of your collateral materials.

OBJECTIVE 5

Any five of the following:

- To become familiar with established methods of doing business in foreign markets
- To stimulate inquiries for sales or foreign representation
- To generate immediate sales/orders
- To identify market preferences
- To create company name and product recognition in the foreign market
- To assess product offerings and competitor's prices
- To evaluate your promotional efforts in the market

OBJECTIVE 6

One consideration for international trade shows is the type of show. A vertical trade show is limited to a specific industry-sector or type of product. An example is a computer hardware and software show. A horizontal trade show exhibits a variety of goods, such as a "Buy U.S." show. **A second consideration** is the audience that you want to reach. International trade shows can help you identify potential foreign agents/distributors. However, most international trade shows are not open to the general public. (For example, if your company sells consumer goods directly to the foreign end-user, then an international trade show might not result in a good return on the costs of participating in the show.) You should "target" your participation to those international trade shows that will reach your audience. In addition, many domestic (U.S.) trade shows today have an "international component." The global orientation of companies, industry associations and government agencies has attracted foreign visitors to trade shows in the United States. These visitors can include potential agents/distributors for your export goods. As a potential exporter, you should recognize the importance of international trade shows for identifying foreign agents/distributors. You should also be aware of the international component in domestic (U.S.) trade shows.

OBJECTIVE 7

Catalog and Video/Catalog Exhibitions—Shows company catalogs or videotapes to potential foreign agents, distributors and other foreign representatives in selected world markets. Sales leads, visitor lists, and other results are forwarded to the company after the show. Priced per event.

Commercial News USA—A monthly export catalog-magazine distributed worldwide that promotes new U.S. products (those on the market less than three years) and established products and services in foreign markets. Priced per listing, depending on options.

Foreign Buyer Program—Brings foreign buyers to selected U.S. trade shows and advises participating U.S. companies in meeting the needs of the visiting foreign representatives. Priced per event.

Matchmaker Trade Delegations—Locates and evaluates potential foreign agents, distributors and other foreign representatives and schedules interviews overseas between the U.S. company and the prescreened foreign contacts. Priced per event.

OBJECTIVE 8

Any three of the following:

- Get qualified advice.
- Design a unique promotion strategy for **export** sales.
- Coordinate resources and activities with foreign representatives.
- Evaluate and revise promotion strategies or activities as needed.

UNIT OBJECTIVES

SERVICE AFTER THE SALE

9

INTRODUCTION

Service after the sale involves company policies for providing service training, supplying products and parts for local servicing, servicing repairs, installation, warranties, returned goods, transit time and costs, and other considerations related to servicing export sales. Service policies for the product can influence foreign sales, and can be important as a sales tool and a competitive advantage in a foreign market.

UNIT OBJECTIVE

After completing this unit, you will be familiar with service considerations in export sales, including warranties. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you will be able to

1. Define service after the sale.
2. Explain the importance of service in export sales.
3. Explain factors that influence service alternatives.
4. Discuss warranty issues.
5. Match service alternatives with their advantages and disadvantages.

PREPARATION

- Order additional materials to supplement this unit.

  Publications

  - *A Basic Guide to Exporting* (Current edition). Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; through Government Bookstores; or contact Department of Commerce district offices.

- Review the unit and plan your presentation:
  - Estimate the amount of material that can be covered in each class session.
  - Plan for appropriate Assignments.
  - Identify objectives that you can supplement with other resources.
  - Invite guest speakers in advance.

    EXAMPLE: Area exporters, DOC specialists, Vo-Tech export specialists, CITD trade specialists/analysts

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities.

DELIVERY

Objective 1

- Give examples of service after the sale.

Objective 2

- Lead a group discussion. Compare the importance of servicing in domestic sales with its importance in export sales.
- Invite a local exporter to discuss servicing export sales.
- Ask selected participants to explain the potential service requirements of their goods for export.

Objective 3

- Discuss how each factor can influence service alternatives.

Objective 4

- Give examples of possible legal requirements affecting warranties, or invite qualified legal counsel to discuss the issue.
- Give examples of "standard" warranties, or ask participants to give examples of the standard warranties for their industries.
- Identify options for administering warranties.
- Invite qualified legal counsel to discuss liability coverage.

Objective 5

- Discuss each alternative and its advantages and disadvantages.

EVALUATION

- Give the Quick Check soon after presenting the unit.
- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- *A Basic Guide to Exporting*, U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service. September 1986.
- "IMAP" workshops (International Management Assistance Program), offered by the Center for International Trade Development (CITD), Oklahoma State University.
- "Fundamentals of Exporting" and "Export Marketing" workshops, offered by Oklahoma International Export Services (OIES), a joint program of the Oklahoma Department of Commerce and the U.S. and Foreign Commercial Service of the U.S. Department of Commerce.

OBJECTIVE 1

Define service after the sale.

Service after the sale involves company policies for providing service training, supplying products and parts for local servicing, servicing repairs, installation, warranties, returned goods, transit time and costs, and other considerations related to servicing export sales.

OBJECTIVE 2

Explain the importance of service in export sales.

Service policies for the product can influence foreign sales. Foreign buyers expect and appreciate servicing for the products they buy. Companies that plan for the distribution of the product while overlooking the distribution of service could permanently damage their reputation in the foreign market. A poor reputation can prevent a company from reaching its export objectives.

Service can be important as a sales tool and a competitive advantage in a foreign market. Service after the sale also helps the company to learn about the foreign buyer and alternative uses for the product, and can help identify current and future opportunities abroad.

OBJECTIVE 3

Explain factors that influence service alternatives.

Type of product—Products requiring frequent servicing may justify a long-term service arrangement in the foreign market, such as through the foreign distributor or a local service provider. Products that do not require frequent servicing may justify a service arrangement without establishing service expertise in the foreign market. The value and the degree of differentiation of the product also influence service alternatives.

EXAMPLE: A high-priced product or high volume of sales may support the expense of establishing overseas servicing capabilities. A low-differentiated (generic) product may be widely servicable in the foreign market.

Export objectives (long-term)—If the manufacturer wants to obtain a long-term share of the foreign market, then a local presence may be needed for servicing the product after the sale. Similarly, the firm must consider the affect of any service alternative on the price of its product and on its pricing objectives.

Competitive position—Service after the sale can represent a competitive advantage in a foreign market. However, the cost of some service alternatives may affect the price competitiveness of the goods.

Channel of distribution—Foreign representatives may be able to provide valuable servicing functions. If the manufacturer belongs to an export trading company, it can legally cooperate with other member companies to meet servicing needs, which lowers the cost of servicing to the individual exporter.

EXAMPLE: Manufacturers may decide to train their foreign distributors to service the product and include service arrangements in their written contracts with a distributor.

Training availability and location—The decision to provide service training in the United States or in the foreign country can depend on whether the exporter has a formal training program, the specific requirements of the product, and the foreign buyer's training needs.

OBJECTIVE 4 **Discuss warranty issues.**

Legal requirements—The international legal implications of warranties and their coverage might differ from their domestic (U.S.) implications.

EXAMPLE: In a particular foreign country, the scope of the manufacturer's liability might be greater than in the United States.

Foreign industry standards—The foreign industry standard for a warranty might be different than the standard warranty in the United States.

NOTE: You will be at a competitive disadvantage in a foreign market if you offer less than the standard warranty in that market.

Flexibility—The manufacturer should consider the ability of a warranty (plus the ability of the product) to meet changing needs and conditions in a foreign market. The warranty could become a sales tool.

Administration—The manufacturer must consider who will administer the warranty, in addition to the question of who will service repairs.

Payment obligation—The manufacturer must consider who will pay for administering a warranty, in whole or in part, including the question of reimbursement for labor and other costs.

Coverage—The scope of the manufacturer's liability under a warranty might be different in a foreign market than in a domestic (U.S.) market, depending on foreign legal requirements and industry standards.

OBJECTIVE 5

Match service alternatives with their advantages and disadvantages.

PROVIDING DIRECT SERVICE (through U.S. service staff or by establishing service personnel in foreign markets)

*A = Advantage; D = Disadvantage

A May be the only alternative to neglecting service after the sale

A Can provide a feeling of security to the buyer through a local presence (if service personnel are established in foreign markets)

D Can be prohibitively expensive

D May disappoint the buyer due to the response time (if service personnel must operate from the U.S.)

TRAINING A FOREIGN DISTRIBUTOR OR LOCAL SERVICE PROVIDER

*A = Advantage; D = Disadvantage

A Can save the manufacturer from the expense of providing service personnel operating from the United States

A Can be a valuable part of a long-term business relationship

D Involves training costs that can affect price competitiveness (if using services of a local provider)

NOTE: You can reduce service costs by using local providers on a short-term basis until you can train your distributors.

D Limits control over service activities

EXAMPLE: A local servicing organization may or may not provide affordable and predictable service.

D Can suffer from a low service priority

D May not detach the U.S. manufacturer from service responsibilities in the mind of the foreign buyer, causing the buyer to doubt the manufacturer's commitment to the sale and to product quality

NEGLECTING AFTER-SALES SERVICE

*A = Advantage; D = Disadvantage

D Might be illegal in specific countries

D Can lose repeat buyers and damage the U.S. firm's reputation

D Can forfeit a long-term relationship for short-term sales

QUICK CHECK

SERVICE AFTER THE SALE

9

Name ______________________ Score __________

OBJECTIVE 1

Define service after the sale.

OBJECTIVE 2

Explain the importance of service in export sales. Include as many main points as possible.

OBJECTIVE 3

Explain factors that influence service alternatives. Choose four (4) factors and explain each.

1. ______________________

2. ____________________
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3. ____________________
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4. ____________________
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OBJECTIVE 4

Discuss warranty issues. Choose five (5) issues and briefly discuss each.

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2. ____________________
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3. ____________________
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4. ______________________________

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5. ______________________________

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OBJECTIVE 5

Match service alternatives with their advantages and disadvantages. Write the correct letter in each blank.

____ 1. May be the only alternative to neglecting service after the sale

____ 2. Involves training costs that can affect price competitiveness (if using services of a local provider)

____ 3. Might be illegal in specific countries

____ 4. Can be prohibitively expensive

____ 5. Limits control over service activities

____ 6. May disappoint the buyer due to the response time (if service personnel must operate from the U.S.)

____ 7. Can be a valuable part of a long-term business relationship

____ 8. Can provide a feeling of security to the buyer through a local presence (if service personnel are established in foreign markets)

____ 9. Can suffer from a low service priority

____ 10. May not detach the U.S. manufacturer from service responsibilities in the mind of the foreign buyer, causing the buyer to doubt the manufacturer's commitment to the sale and to product quality

____ 11. Can lose repeat buyers and damage the U.S. firm's reputation

a. Providing direct service

b. Training a foreign distributor or local service provider

c. Neglecting after-sales service

___12. Can save the manufacturer from the expense of providing service personnel operating from the United States

___13. Can forfeit a long-term relationship for short-term sales

QUICK CHECK ANSWERS

SERVICE AFTER THE SALE

9

OBJECTIVE 1

Service after the sale involves company policies for providing service training, supplying products and parts for local servicing, servicing repairs, installation, warranties, returned goods, transit time and costs, and other considerations related to servicing export sales.

OBJECTIVE 2

Service policies for the product can influence foreign sales. Foreign buyers expect and appreciate servicing for the products they buy. Companies that plan for the distribution of the product while overlooking the distribution of service could permanently damage their reputation in the foreign market. A poor reputation can prevent a company from reaching its export objectives.

Service can be important as a sales tool and a competitive advantage in a foreign market. Service after the sale also helps the company to learn about the foreign buyer and alternative uses for the product, and can help identify current and future opportunities abroad.

OBJECTIVE 3

Any four (4) of the following:

Type of product—Products requiring frequent servicing may justify a long-term service arrangement in the foreign market, such as through the foreign distributor or a local service provider. Products that do not require frequent servicing may justify a service arrangement without establishing service expertise in the foreign market. The value and the degree of differentiation of the product also influence service alternatives.

Export objectives (long-term)—If the manufacturer wants to obtain a long-term share of the foreign market, then a local presence may be needed for servicing the product after the sale. Similarly, the firm must consider the affect of any service alternative on the price of its product and on its pricing objectives.

Competitive position—Service after the sale can represent a competitive advantage in a foreign market. However, the cost of some service alternatives may affect the price competitiveness of the goods.

Channel of distribution—Foreign representatives may be able to provide valuable servicing functions. If the manufacturer belongs to an export trading company, it can legally cooperate with other member companies to meet servicing needs, which lowers the cost of servicing to the individual exporter.

Training availability and location—The decision to provide service training in the United States or in the foreign country can depend on whether the exporter has a formal training program, the specific requirements of the product, and the foreign buyer's training needs.

OBJECTIVE 4

Any five (5) of the following:

Legal requirements—The international legal implications of warranties and their coverage might differ from their domestic (U.S.) implications.

Foreign industry standards—The foreign industry standard for a warranty might be different than the standard warranty in the United States.

Flexibility—The manufacturer should consider the ability of a warranty (plus the ability of the product) to meet changing needs and conditions in a foreign market. The warranty could become a sales tool.

Administration—The manufacturer must consider who will administer the warranty, in addition to the question of who will service repairs.

Payment obligation—The manufacturer must consider who will pay for administering a warranty, in whole or in part, including the question of reimbursement for labor and other costs.

Coverage—The scope of the manufacturer's liability under a warranty might be different in a foreign market than in a domestic (U.S.) market, depending on foreign legal requirements and industry standards.

OBJECTIVE 5

1. a
2. b
3. c
4. a
5. b
6. a
7. b
8. a
9. b
10. b
11. c
12. b
13. c

UNIT OBJECTIVES

RISKS IN EXPORT SALES

10

INTRODUCTION

Business transactions, whether export or domestic, involve risks for the seller and for the buyer. However, export sales involve unique risks that can affect the acceptance of the goods at the foreign destination, as well as the seller's receipt of payment for the goods. In international trade, risks can be affected by the many differences between the parties to the sale, including differences in time, distance, culture, and system of government. U.S. manufacturers ("the seller") must carefully evaluate the potential risks involved with any export sale. Through detailed market research, appropriate methods of payment and collection, and qualified advice, you can reduce many potential risks.

UNIT OBJECTIVE

After completing this unit, you will be familiar with the types of risks in export sales, their possible effects, and basic guidelines for reducing risks. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you will be able to

1. Describe types of risks in export sales.
2. Identify potential effects of risks in export sales.
3. State basic guidelines for reducing risks.
4. Identify common foreign currencies.
5. Interpret a foreign exchange table. (Assignment 1)

PREPARATION

- Order additional materials to supplement this unit.

  Publications

  - *A Basic Guide to Exporting* (Current edition). Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; through Government Bookstores; or contact Department of Commerce district offices.

  NOTE: Also see the Unit References.

- Review the unit and plan your presentation:
  - Estimate the amount of material that can be covered in each class session.
  - Plan for appropriate Assignments.
  - Identify objectives that you can supplement with other resources.
  - Invite guest speakers in advance.

    EXAMPLE: Area exporters, Department of Commerce specialists, banking specialists

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities.

DELIVERY

Objectives 1 and 2

- Give examples of each type of risk. Describe possible situations.
- State that many of the questions for evaluating risks can be answered through market research. **However, some degree of risk will always remain**.
- Explain how each question is important for evaluating risks.

Objective 3

- Refer participants to Unit 2 for sources of advice.

Objective 4

- Clip the exchange rate table from a major newspaper and make a transparency or handout. Locate the currencies in the table that are presented in this unit, and point out other currencies (and their country) listed in the table.
- Introduce Assignment 1.

APPLICATION

Objective 5

- Introduce Assignment 1. Complete the Assignment as an in-class or take-home activity after discussing the related objectives.
- Review the related objectives before completing the Assignment, if needed.
- Create additional Assignments, as needed, to reinforce the objectives and/or to meet the needs of participants.

EVALUATION

- Give the Quick Check soon after presenting the unit.
- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- *A Basic Guide to Exporting*, U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service. September 1986.
- "Fundamentals of Exporting" and "Shipping and Documentation" workshops, offered by Oklahoma International Export Services (OIES), a joint program of the Oklahoma Department of Commerce and the U.S. and Foreign Commercial Service of the U.S. Department of Commerce.
- *Exporter's Guide to the Preparation of Documents Under Letters of Credit*, Bank of Oklahoma, Tulsa, Oklahoma.

OBJECTIVE 1

Describe types of risks in export sales.

Commercial credit risks—Commercial credit risks involve the financial and acceptance risks involved in export sales. Financial risks deal with the buyer's credit-worthiness; acceptance risks deal with the buyer's acceptance of the export shipment. For example, it may be difficult in some countries for the U.S. exporter to obtain reliable credit information about a potential buyer. Export sales could also involve the risk of the foreign buyer being unable to accept the goods, for various reasons, when they arrive at the foreign destination. For example, problems with the documentation for the shipment could cause a delay in customs clearance.

Cultural risks--Different methods of business and accounting can create risks for the buyer and seller. Different languages can make communication more difficult and can increase the chances for misunderstanding. In some foreign markets, it may be difficult for the U.S. exporter to obtain credit information about potential buyers. The buyer and the seller might not understand the meaning of a contract in the same way. Practices, procedures, and customs that are unfamiliar to the buyer or the seller can create risks for both.

Documentary risks—Documentation requirements of the importing country can create risks when mistakes occur or when requirements are not followed.

EXAMPLE: Documents required for shipping, packing and marking, import licenses, pre-import approval for foreign exchange, and others

Economic risks—Economic risks can involve foreign exchange rates, interest rates, tariffs, and other considerations. For example, the seller may risk a loss when receiving payment in a foreign currency, due to a decline in the exchange rate between the signing of the contract and the receipt of payment. Or, a change in the interest rate could be unfavorable to the seller or to the buyer, after financing terms have been agreed upon. Some economic risks are created as a result of foreign government action, such as a restriction in a foreign country on the amount of profits that can leave the country.

Political risks—The risk of war, civil or political unrest, revolution, shortage or unavailability of foreign currency, nationalization, embargoes, currency devaluation, or other situations in the foreign country can create payment or acceptance risks.

OBJECTIVE 2

Identify potential effects of risks in export sales.

NOTE: This objective does not represent all of the possible risks and their potential effects.

COMMERCIAL CREDIT RISK

- **Buyer cannot pay** upon receipt of the goods or at a later date, resulting in slowed payment or eventual financial insolvency

  NOTE: The degree of the financial risk to the seller increases with the length of the credit terms offered to the buyer, the nature of the buyer's business, and the buyer's financial capacity.

- **Buyer refuses to accept** the export shipment, due to the seller's noncompliance with the sales contract, the buyer's decision to void the transaction, or the buyer's attempt to force the seller to lower the price

  NOTE: This is especially possible with commodity shipments, where the price has declined after negotiation of the sales contract.

- **Seller incurs charges** on the export shipment left in the foreign port, due to the buyer's nonpayment or nonacceptance

CULTURAL RISKS

- Misunderstandings between the buyer and the seller resulting from poor communication
- Disagreements over responsibilities and obligations stated or implied
- Contract disputes and their potential costs to the seller in terms of money and/or reputation in the market

DOCUMENTARY RISK

- Export shipment is delayed in customs clearance
- Seller is delayed in obtaining foreign exchange for payment

- Export shipment is confiscated and/or the seller is fined

ECONOMIC RISK

- The seller incurs a loss in the dollar value of the export sale because of a change in the exchange rate (if you receive payment in the foreign currency and the currency devalues)
- Seller's required currency for payment is not immediately available, requiring a waiting period before receiving payment
- A declining economic environment in the foreign country can lead to capital controls
- A large trade deficit may cause a foreign country to prioritize its imports and exports

POLITICAL RISK

- Export shipment is not accepted or paid for
- A previously-approved agreement is cancelled or altered by the buyer's government

FOR YOUR INFORMATION

Common questions for evaluating risks

Q What is the buyer's credit history and financial position?

Q Who owns the buyer—private sector or public sector?

Q What is your relationship with the buyer—new buyer, frequent buyer, dealer/distributor, subsidiary/affiliate, etc?

Q What is the potential for loss?

Q Are the goods susceptible to total loss if refused, i.e., perishable goods, specially-manufactured goods, etc?

Q How stable is the foreign government?

Q Does the foreign country have a history of civil unrest?

Q What are the economic trends in the target market, including inflation and recession?

Q How can the foreign exchange be described in terms of the record of past changes, current rates, projected stability, and target market control regulations?

Q How can the interest rate be described in terms of the record of past changes, current rate, and projected stability?

Q What types of documents are required and what is the record of acceptance or rejection of required documents?

OBJECTIVE 3 **State basic guidelines for reducing risks.**

- Identify potential risks.
- Choose an appropriate method of payment.

  NOTE: See Unit 13.
- Obtain credit risk insurance.

  NOTE: See Unit 12.
- Investigate the credit-worthiness of potential buyers and distributors.
- Get qualified advice.

OBJECTIVE 4 **Identify common foreign currencies.**

COUNTRY	CURRENCY
Australia	dollar
Belgium	franc
Brazil	cruzado or cruzeiro
Britain	pound
Canada	dollar
Colombia	peso
Denmark	krone
Finland	markka
France	franc
Greece	drachma
Hong Kong	dollar
India	rupee
Italy	lira
Japan	yen
Mexico	peso
Netherlands	guilder
Portugal	escudo
Singapore	dollar
South Korea	won
Spain	peseta
Sweden	krona
Switzerland	franc
Taiwan	dollar
West Germany	deutsche mark

Name ______________________________ Score __________

OBJECTIVE 5

Interpret a foreign exchange table.

INTRODUCTION

When the value of a foreign currency rises compared to the U.S. dollar, the increase in value will improve the position of your goods in the foreign market by lowering the cost of the goods and making them more price-competitive. A decrease in the value of a foreign currency against the dollar will have the opposite effect, making your goods more expensive and less competitive in price in the foreign market.

DIRECTIONS

- To check the exchange rate per one (1) U.S. dollar, see the two columns on the right of the table. This figure represents the units of each foreign currency per U.S. dollar.

  EXAMPLE: On Thursday, one U.S. dollar traded for 2682.00 Mexican pesos.

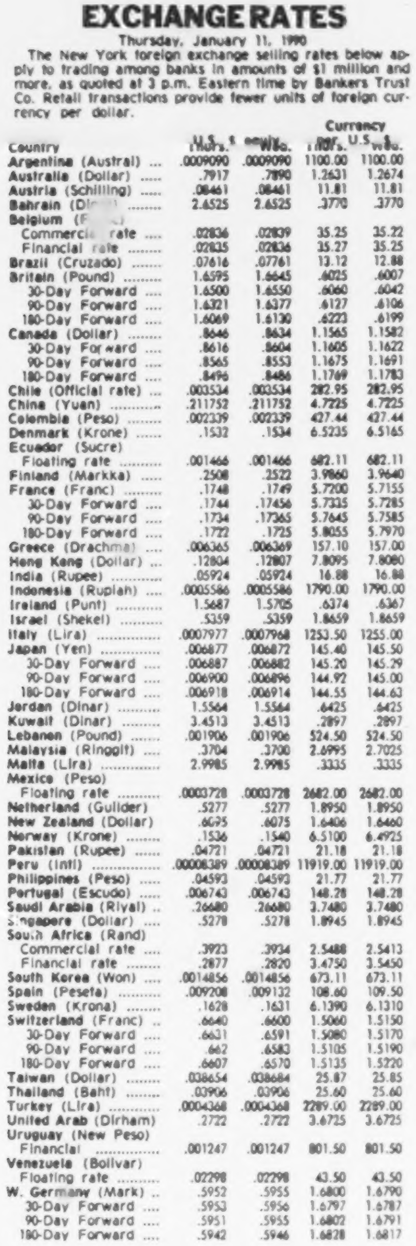
- To convert a foreign currency into U.S. dollars, see the two columns on the left of the table. This figure represents the value of one (1) unit of the foreign currency in U.S. dollars.

  EXAMPLE: On Thursday, one Japanese yen is equal to 0.006877 U.S. dollars.

  If you know the exchange rate per one U.S. dollar, you can find this U.S. dollar equivalent by dividing the first figure into the number one (1).

  EXAMPLE: From the table, you find that one U.S. dollar on Thursday traded for 1.6800 deutsche mark. Converting to U.S. dollars, this means that one deutsche mark is equal to 1 divided by 1.6800, or 0.5952 U.S. dollars.

- Use the table to answer the following questions.



EXCHANGE RATES

Thursday, January 11, 1990

The New York foreign exchange selling rates below apply to trading among banks in amounts of $1 million and more, as quoted at 3 p.m. Eastern time by Bankers Trust Co. Retail transactions provide fewer units of foreign currency per dollar.

			Currency	
	U.S. $ equiv.		per U.S. $	
Country	Thurs.	Wed.	Thurs.	Wed.
Argentina (Austral) ...	.0009090	.0009090	1100.00	1100.00
Australia (Dollar)	.7917	.7890	1.2631	1.2674
Austria (Schilling)	.08461	.08461	11.81	11.81
Bahrain (Di[illegible])	2.6525	2.6525	.3770	.3770
Belgium (F[illegible])				
Commercial rate	.02836	.02839	35.25	35.22
Financial rate	.02835	.02836	35.27	35.25
Brazil (Cruzado)	.07616	.07761	13.12	12.88
Britain (Pound)	1.6595	1.6645	.6025	.6007
30-Day Forward	1.6500	1.6550	.6060	.6042
90-Day Forward	1.6321	1.6377	.6127	.6106
180-Day Forward	1.6069	1.6130	.6223	.6199
Canada (Dollar)	.8646	.8634	1.1565	1.1582
30-Day Forward	.8616	.8604	1.1605	1.1622
90-Day Forward	.8565	.8553	1.1675	1.1691
180-Day Forward	.8496	.8486	1.1769	1.1783
Chile (Official rate) ...	.003534	.003534	282.95	282.95
China (Yuan)	.211752	.211752	4.7225	4.7225
Colombia (Peso)	.002339	.002339	427.44	427.44
Denmark (Krone)	.1532	.1534	6.5235	6.5165
Ecuador (Sucre)				
Floating rate	.001466	.001466	682.11	682.11
Finland (Markka)	.2508	.2522	3.9860	3.9640
France (Franc)	.1748	.1749	5.7200	5.7155
30-Day Forward	.1744	.17456	5.7335	5.7285
90-Day Forward	.1734	.17365	5.7645	5.7585
180-Day Forward	.1722	.1725	5.8055	5.7970
Greece (Drachma)	.006365	.006369	157.10	157.00
Hong Kong (Dollar) ...	.12804	.12807	7.8095	7.8080
India (Rupee)	.05924	.05924	16.88	16.88
Indonesia (Rupiah)	.0005586	.0005586	1790.00	1790.00
Ireland (Punt)	1.5687	1.5705	.6374	.6367
Israel (Shekel)	.5359	.5359	1.8659	1.8659
Italy (Lira)	.0007977	.0007968	1253.50	1255.00
Japan (Yen)	.006877	.006872	145.40	145.50
30-Day Forward	.006887	.006882	145.20	145.29
90-Day Forward	.006900	.006896	144.92	145.00
180-Day Forward	.006918	.006914	144.55	144.63
Jordan (Dinar)	1.5564	1.5564	.6425	.6425
Kuwait (Dinar)	3.4513	3.4513	.2897	.2897
Lebanon (Pound)	.001906	.001906	524.50	524.50
Malaysia (Ringgit)	.3704	.3700	2.6995	2.7025
Malta (Lira)	2.9985	2.9985	.3335	.3335
Mexico (Peso)				
Floating rate	.0003728	.0003728	2682.00	2682.00
Netherland (Guilder)	.5277	.5277	1.8950	1.8950
New Zealand (Dollar)	.6095	.6075	1.6406	1.6460
Norway (Krone)	.1536	.1540	6.5100	6.4925
Pakistan (Rupee)	.04721	.04721	21.18	21.18
Peru (Intl)	.00008389	.00008389	11919.00	11919.00
Philippines (Peso)	.04593	.04593	21.77	21.77
Portugal (Escudo)	.006743	.006743	148.28	148.28
Saudi Arabia (Riyal) ..	.26680	.26680	3.7480	3.7480
Singapore (Dollar)	.5278	.5278	1.8945	1.8945
South Africa (Rand)				
Commercial rate	.3923	.3934	2.5488	2.5413
Financial rate	.2877	.2820	3.4750	3.5450
South Korea (Won)	.0014856	.0014856	673.11	673.11
Spain (Peseta)	.009208	.009132	108.60	109.50
Sweden (Krona)	.1628	.1631	6.1390	6.1310
Switzerland (Franc) ..	.6640	.6600	1.5060	1.5150
30-Day Forward	.6631	.6591	1.5080	1.5170
90-Day Forward	.662	.6583	1.5105	1.5190
180-Day Forward	.6607	.6570	1.5135	1.5220
Taiwan (Dollar)	.038654	.038684	25.87	25.85
Thailand (Baht)	.03906	.03906	25.60	25.60
Turkey (Lira)	.0004368	.0004368	2289.00	2289.00
United Arab (Dirham)	.2722	.2722	3.6725	3.6725
Uruguay (New Peso)				
Financial	.001247	.001247	801.50	801.50
Venezuela (Bolivar)				
Floating rate	.02298	.02298	43.50	43.50
W. Germany (Mark) ..	.5952	.5955	1.6800	1.6790
30-Day Forward	.5953	.5956	1.6797	1.6787
90-Day Forward	.5951	.5955	1.6802	1.6791
180-Day Forward	.5942	.5946	1.6828	1.6817

SOURCE: *The Wall Street Journal*, Friday, January 12, 1990.

1. Give the rate of exchange per U.S. dollar for each of the currencies listed below. Use the "Thursday" figures from the table.

One (1) U.S. dollar = ________ French franc

= ________ deutsche mark

= ________ Mexican peso

= ________ Canadian dollar

= ________ yen

= ________ won

= ________ markka

= ________ Italian lira

= ________ Taiwan dollar

= ________ guilder

2. Convert the following currencies into U.S. dollars (USD). Use the "Thursday" figures from the Table.

1 French franc = ________ USD

1 Australian dollar = ________ USD

1 yen = ________ USD

1 deutsche mark = ________ USD

1 Singapore dollar = ________ USD

1 Colombian peso = ________ USD

1 Mexican peso = ________ USD

1 Italian lira = ________ USD

1 Taiwan dollar = ________ USD

1 cruzado = ________ USD

3. Assume that your firm is selling a widget through a Brazilian distributor. The price of the widget in U.S. dollars is $ 23.85. How many cruzado does the widget cost your distributor? Use the "Thursday" figures from the Table.

____

4. How much does the same widget cost your distributor in West Germany (in deutsche mark)? Use the "Thursday" figures from the Table.

____

5. If you are selling a different widget in Singapore for 45.1838 Singapore dollars, what is your price in U.S. dollars? Use the "Thursday" figures from the Table.

____

6. Assume that you have negotiated a contract with a distributor in Singapore for a shipment of your goods worth $50,000.00 U.S. dollars. However, you fail to clarify the term "dollar." The distributor assumes that the shipment is worth 50,000 Singapore dollars. What is your potential loss in U.S. dollars? Use the "Thursday" figures from the Table.

For questions 7-10, use the foreign exchange figures on page 10-16.

7. How many pesos did your Mexican distributor pay for a $25,000.00 shipment

in 1983? _______________

in 1984? _______________

in 1985? _______________

in 1986? _______________

in 1987? _______________

in 1988? _______________

in 1989? _______________

8. Assume that you have negotiated a contract with a distributor in Mexico on June 1, 1982. The shipment is worth $30,000.00 and the distributor agrees to pay in 90 days. In terms of the exchange rate on June 2, 1982, how many dollars did the distributor pay for the shipment on September 1, 1982?

____

9. How many Canadian dollars did your distributor in Canada pay for a $25,000.00 shipment

in 1983? ____________________

in 1984? ____________________

in 1985? ____________________

in 1986? ____________________

in 1987? ____________________

in 1988? ____________________

in 1989? ____________________

10. If the price of your widget in U.S. dollars remains unchanged for the period 6-3-85 to 6-1-89 at $23.85, what is the increase or decrease in the price of the widget in Canadian dollars over the same period?

____

DATE REPORTED*	COUNTRY	CURRENCY PER U.S. $
6-2-82	Mexico (peso)	47.22
9-1-82	Mexico (peso)	122.0
6-1-83	Canada (dollar)	1.2298
	Mexico (peso)	149.00
6-1-84	Canada (dollar)	1.2943
	Mexico (peso)	204.20
6-3-85	Canada (dollar)	1.3727
	Mexico (peso)	276.00
8-1-86	Canada (dollar)	1.3780
	Mexico (peso)	633.50
6-1-87	Canada (dollar)	1.3385
	Mexico (peso)	1259.00
6-1-88	Canada (dollar)	1.2328
	Mexico (peso)	2270.00
6-1-89	Canada (dollar)	1.2055
	Mexico (peso)	2460.00

SOURCE: Latest exchange rates as listed in the *Wall Street Journal* on the given date (*).

ASSIGNMENT 1

1. One (1) U.S. dollar =

5.7200	French franc
1.6800	deutsche mark
2682.00	Mexican peso
1.1565	Canadian dollar
145.40	yen
673.11	won
3.9860	markka
1253.50	Italian lira
25.87	Taiwan dollar
1.8950	guilder

2.

1 French franc	=	0.1748	USD
1 Australian dollar	=	0.7917	USD
1 yen	=	0.006877	USD
1 deutsche mark	=	0.5952	USD
1 Singapore dollar	=	0.5278	USD
1 Colombian peso	=	0.002339	USD
1 Mexican peso	=	0.0003728	USD
1 Italian lira	=	0.0007977	USD
1 Taiwan dollar	=	0.038654	USD
1 cruzado	=	0.07616	USD

3. 312.91 cruzado

4. 40.07 deutsche mark

5. 23.85 U.S. dollars

6. 23,607.81 U.S. dollars

7. in 1983 3,725,000 pesos

in 1984 5,105,000 pesos

in 1985 6,900,000 pesos

in 1986 15,837,500 pesos

in 1987 31,475,000 pesos

in 1988 56,750,000 pesos

in 1989 61,500,000 pesos

8. 77,509.53 U.S. dollars

HINT: The $30,000.00 order is worth 3,660,000 Mexican pesos on September 1, 1982 (30,000 multiplied by 122). In terms of the exchange rate on June 2, 1982, the 3,660,000 Mexican pesos are equal to 77,509.53 U.S. dollars (3,660,000 divided by 47.22).

9.

in 1983	30,745 dollars
in 1984	32,357.5 dollars
in 1985	34,317.5 dollars
in 1986	34,450 dollars
in 1987	33,462.5 dollars
in 1988	30,820 dollars
in 1989	30,137.5 dollars

10. Decrease of 4,180 Canadian dollars.

QUICK CHECK

RISKS IN EXPORT SALES

10

Name ______________________________ Score _________

OBJECTIVE 1

Describe types of risks in export sales. In the blank beside each item, write the appropriate letter for the type of risk associated with the item.

CC = Commercial credit risk

C = Cultural risk

D = Documentary risk

E = Economic risk

P = Political risk

____ 1. The buyer's acceptance of the export shipment

____ 2. Different methods of business and accounting

____ 3. War, revolution, nationalization, embargoes, currency devaluation

____ 4. Different languages

____ 5. The buyer and the seller might not understand the meaning of a contract in the same way

____ 6. The buyer's credit-worthiness

____ 7. Practices, procedures, and customs that are unfamiliar to the buyer or the seller

____ 8. Foreign exchange rates, interest rates, tariffs

OBJECTIVE 2

Identify potential effects of risks in export sales. Write the correct letter in each blank.

____1. Seller incurs a loss in the dollar value of the export sale because of a change in the exchange rate

____2. Buyer refuses to accept the export shipment, due to the seller's noncompliance with the sales contract, the buyer's decision to void the transaction, or the buyer's attempt to force the seller to lower the price

____3. A previously-approved agreement is cancelled or altered by the buyer's government

____4. Export shipment is delayed in customs clearance

____5. Seller is delayed in obtaining foreign exchange for payment

____6. Disagreements over responsibilities and obligations stated or implied

____7. Export shipment is confiscated and/or the seller is fined

____8. Buyer cannot pay upon receipt of the goods or at a later date, resulting in slowed payment or eventual financial insolvency

____9. A declining economic environment in the foreign country can lead to capital controls

___10. Seller incurs charges on the export shipment left in the foreign port, due to the buyer's nonpayment or nonacceptance

__11. Export shipment is not accepted or paid for

__12. Seller's required currency for payment is not immediately available requiring a waiting period before receiving payment

___13. A large trade deficit may cause a foreign country to prioritize its imports and exports

___14. Misunderstandings between the buyer and the seller resulting from poor communication

a. Commercial credit risk

b. Cultural risk

c. Documentary risk

d. Economic risk

e. Political risk

OBJECTIVE 3

State basic guidelines for reducing risks. State three (3) guidelines.

1. ____________________

2. ____________________

3. ____________________

OBJECTIVE 4

Identify common foreign currencies. For each country, give its currency. For each currency, give its country.

COUNTRY	CURRENCY
1. Australia	____________
2. Belgium	____________
3. ____________	cruzado or cruzeiro
4. Britain	____________
5. Canada	____________
6. Colombia	____________
7. ____________	krone
8. Finland	____________
9. France	____________
10. ____________	drachma
11. Hong Kong	____________
12. ____________	rupee
13. Italy	____________
14. Japan	____________
15. Mexico	____________
16. ____________	guilder
17. ____________	escudo
18. Singapore	____________
19 ____________	won
20. ____________	peseta

21. Sweden ____________________

22. Switzerland ____________________

23. Taiwan ____________________

24. West Germany ____________________

NOTICE The objective listed below is not part of the Quick Check.

OBJECTIVE 5 **Interpret a foreign exchange table.** SCORE ________

QUICK CHECK ANSWERS

RISKS IN EXPORT SALES

10

OBJECTIVE 1

1. CC
2. C
3. P
4. C
5. C
6. CC
7. C
8. E

OBJECTIVE 2

1. d
2. a
3. e
4. c
5. c
6. b
7. c
8. a
9. d
10. a
11. e
12. e
13. d
14. b

OBJECTIVE 3

Any three of the following:

- Identify potential risks.
- Choose an appropriate method of payment.
- Obtain credit risk insurance.
- Investigate the credit-worthiness of potential buyers and distributors.
- Get qualified advice.

OBJECTIVE 4

1. dollar
2. franc
3. Brazil
4. pound
5. dollar
6. peso
7. Denmark
8. markka
9. franc
10. Greece
11. dollar
12. India
13. lira
14. yen
15. peso
16. Netherlands
17. Portugal
18. dollar
19. South Korea
20. Spain
21. krona
22. franc
23. dollar
24. deutsche mark

TERMS OF SALE

11

INTRODUCTION

Agreed-upon terms of sale can help prevent costly misunderstandings in export sales, by identifying the obligations of the buyer and the seller in the transaction. Terms of sale also state the terms of delivery, provide a meaningful price quotation to potential buyers, and identify the buyer's and seller's costs associated with specific responsibilities. In addition, export sales include additional costs to the manufacturer, many of which are not components of domestic prices. Therefore, export sales may require flexible pricing that reflects the costs associated with providing the goods to foreign markets.

UNIT OBJECTIVE

After completing this unit, you will be familiar with basic export terms of sale and obligations of the buyer and the seller under each term. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you will be able to

1. Explain the importance of agreed-upon terms of sale.
2. Define Incoterms.
3. Match commonly-used Incoterms with their correct definitions.
4. Identify the seller's costs and risks under common Incoterms.
5. Match terms associated with export pricing with their correct definitions.
6. Discuss the importance of a flexible pricing policy for export sales.
7. Explain the impact of factors affecting export pricing strategies.
8. Explain common components of an export price.
9. Distinguish among options for countering the effects of export price escalation.
10. Distinguish among pricing alternatives.
11. State basic guidelines for pricing goods for export.
12. Identify considerations for adapting a domestic price sheet for international sales.
13. State uses for pro forma invoices.

14. Outline the contents of a pro forma invoice.

15. Interpret common Incoterms. (Assignment 1)

16. Adapt a domestic price sheet for international sales. (Assignment 2)

17. Quote export prices under FOB, FAS and CIF terms. (Assignment 3)

PREPARATION

- Order additional materials to supplement this unit.

  Publications

  - *A Basic Guide to Exporting* (Current edition). Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; through Government Bookstores; or contact Department of Commerce district offices.
  - *ICC Incoterms: International rules for the interpretation of trade terms* (ICC publication No. 350)
  - *Guide to Incoterms* (ICC publication No. 354)

  Available from ICC Publishing Corporation, 156 5th Avenue, Suite 819-820, New York, New York 10010 (212/206-1150).

  NOTE: Also see the Unit References.

- Review the unit and plan your presentation:
  - Estimate the amount of material that can be covered in each class session.
  - Plan for appropriate Assignments.
  - Identify objectives that you can supplement with other resources.
  - Invite guest speakers in advance.

    EXAMPLE: Area exporters, freight forwarders, Department of Commerce specialists, banking specialists

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities.

DELIVERY

Objectives 1-4

- Describe possible misunderstandings that could be avoided by using agreed-upon Incoterms. State that a written agreement including terms of sale can help prevent a costly dispute.

- Refer back to the pro forma invoice as an example of quoting export prices using specific terms of sale.

- Invite a freight forwarder or a company traffic manager to discuss terms of sale.

- Prepare a list of questions about the responsibilities of the buyer and the seller under common terms of sale. Ask participants to answer the questions using the chart in Objective 4, then discuss the answers.

- Introduce Assignment 1 and Assignment 2.

- Refer to Supplement 1. Discuss how the Worksheet can be used to calculate an export quotation in response to a foreign or other inquiry.

Objective 5

- Using a chalkboard or transparency, demonstrate the importance of a flexible pricing policy for export sales by (1) describing a typical domestic sale and listing the elements of the domestic price, then (2) describing a typical export sale, including the steps that the goods take from seller to foreign end-user, and listing the elements of the export price. Compare the two prices. If components of the domestic price were included in the export price, remove/replace the domestic components and show a unique export price, based on the costs of the export sale.

Objective 6

- Give examples of possible export objectives and the way that those objectives can affect pricing decisions and strategies.

- State that many of the factors affecting export pricing strategies are possible questions for market research activities.

- Give examples of the affect of each factor on pricing decisions, if possible.

Objectives 7-9

- Starting with the cost of goods sold, compute a sample export price to show the added components to the CGS. This example will also demonstrate export "price escalation."

- Give examples of ways to counter the effects of export price escalation.

- On a chalkboard or transparency, compute a sample export price for the same goods using each pricing alternative. Compare the prices.

- Provide all of the components of a domestic and export price for a sample product, then ask participants to compute the export price using each pricing alternative.

Objectives 10-11

- Explain the importance of each guideline.

Objective 12

- Identify common items in a domestic price list that apply only to the United States, and explain why they should be deleted or replaced in the international price list.

Objectives 13-14

- Provide examples of actual pro forma invoices, if possible.

- Complete a sample, blank pro forma invoice or have participants complete a sample, using information that you provide and the outline in the unit.

APPLICATION

Objectives 15-17

- Complete the Assignments as an in-class or take-home activity after discussing the related objectives.

- Review the related objectives before completing the Assignments, if needed.

- Create additional Assignments, as needed, to reinforce the objectives and/or to meet the needs of participants.

EVALUATION

- Give the Quick Check soon after presenting the unit and after completing the Assignments.

- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- *A Basic Guide to Exporting*, U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service. September 1986.
- "Fundamentals of Exporting" and "Shipping and Documentation" workshops, offered by Oklahoma International Export Services (OIES), a joint program of the Oklahoma Department of Commerce and the U.S. and Foreign Commercial Service of the U.S. Department of Commerce.
- "Export Pricing" workshop, offered by CITD and OIES. April 11, 1989.
- *Exporter's Guide to the Preparation of Documents Under Letters of Credit*, Bank of Oklahoma, Tulsa, Oklahoma.
- *ICC Incoterms: International rules for the interpretation of trade terms* (ICC publication No. 350), ICC Publishing Corporation.
- *Guide to Incoterms* (ICC publication No. 354), ICC Publishing Corporation.

SPECIFIC OBJECTIVES

TERMS OF SALE

11

OBJECTIVE 1

Explain the importance of agreed-upon terms of sale.

Agreed-upon terms of sale can help prevent costly misunderstandings in export sales, by identifying the obligations of the buyer and the seller in the transaction. Obligations can include the extent of the buyer's and seller's responsibility for loss or damage to the goods during shipment, including the obligation to obtain insurance. Terms of sale also state the terms of delivery, provide a meaningful price quotation to potential buyers, and identify the buyer's and seller's costs associated with specific responsibilities.

OBJECTIVE 2

Define Incoterms.

Incoterms—Terms of sale used in international trade, issued by the International Chamber of Commerce and replacing the Revised Foreign Trade Definitions of 1941 as the world standard; when explicitly accepted by the buyer and the seller, these terms assign specific risks and obligations to the buyer and the seller in an export transaction

IMPORTANT: The buyer and the seller should explicitly agree upon the terms of sale in writing. In the absence of a specific reference, U.S. courts refer to terms in Article 2 of the Uniform Commercial Code (UCC). These terms vary from the Incoterms in small but important details!

OBJECTIVE 3

Match commonly-used Incoterms with their correct definitions.

CIF (Cost, Insurance, and Freight)—Seller quotes a price that covers cost, insurance, and freight, including all transportation and miscellaneous charges to the point of debarkation from the vessel or aircraft.

C & F (Cost and Freight)—Seller assumes all costs and risks to bring the export goods to the named port of import, except the cost of insurance. However, the risk of loss or damage to the goods is transferred to the buyer when the goods pass the ship's rail in the port of export.

DELIVERED AT FRONTIER—Seller assumes all costs and risks to bring the export goods to the frontier, but before the "customs border" of the named country in the sales agreement.

NOTE: This term is used mainly with shipments by rail or by road, but can be used regardless of the mode of transportation.

DELIVERED DUTY PAID [named buyer's premises]—Identifies the seller's maximum obligations if the buyer's premises are specified. Seller assumes all costs and risks to bring the export goods from the seller's premises to the buyer's premises.

NOTE: This term can be used regardless of the mode of transportation.

EX [named point of origin]—The quoted price applies only at the named point of origin. Seller assumes all costs and risks to bring the export goods to the named point. Buyer assumes all costs and risks from the named point.

EXAMPLE: EX Factory, EX Warehouse

FAS (Free Alongside Ship)—Seller assumes all costs and risks to bring the export goods to the named port of export, including the costs of unloading and wharfage. Buyer assumes all costs and risks for loading, transporting, and insuring the goods from the named port.

FOB (Free On Board) [named inland point or port of export]—Seller assumes all costs and risks to bring the export goods to the named inland point or port of export. Buyer assumes all following costs and risks.

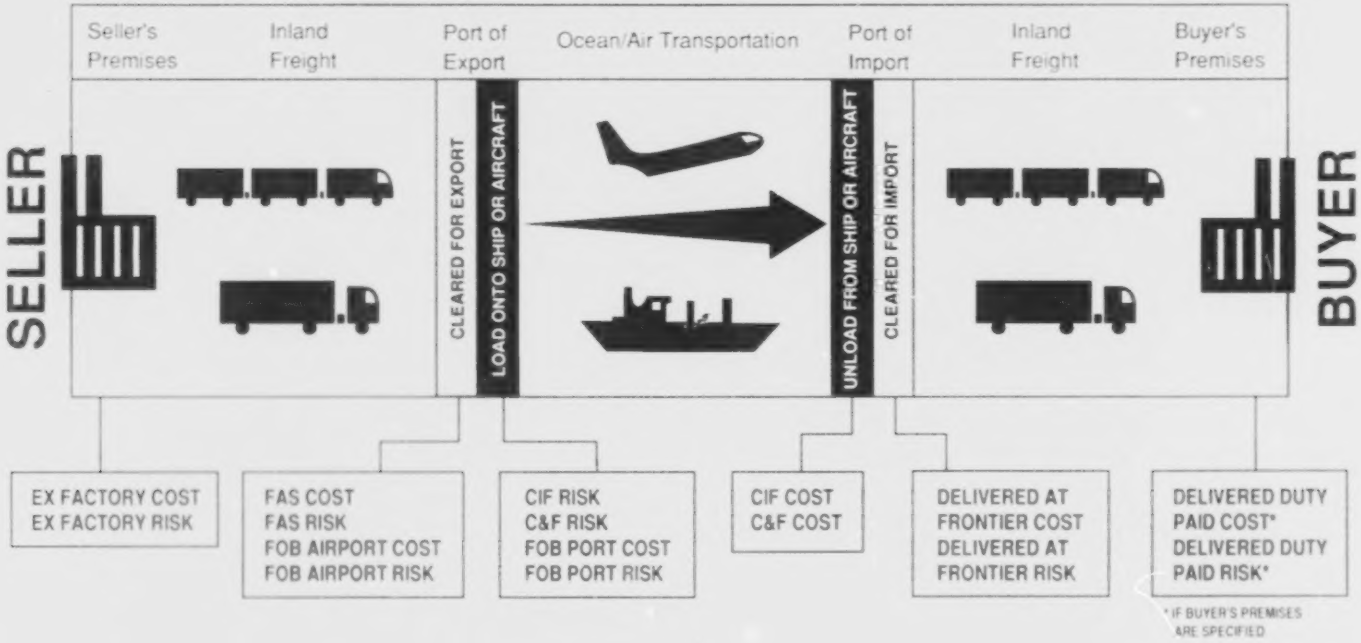
NOTE: The risk of loss or damage to the goods is transferred to the buyer when the goods pass the ship's rail at the designated port or point, or when the goods are delivered to the air carrier if FOB Airport. However, it may still be **wise** for you to obtain insurance.

OBJECTIVE 4 **Identify the seller's costs and risks under common Incoterms.**

See the diagram on the next page.

NOTE: This diagram does not include all INCOTERMS and does not replace more complete publications and explanations. See the ICC publications No. 350 and No. 354.

Seller's Costs and Risks[1]


Seller's Premises
Inland Freight
Port of Export
Ocean/Air Transportation
Port of Import
Inland Freight
Buyer's Premises
SELLER
CLEARED FOR EXPORT
LOAD ONTO SHIP OR AIRCRAFT
UNLOAD FROM SHIP OR AIRCRAFT
CLEARED FOR IMPORT
BUYER

EX FACTORY COST
EX FACTORY RISK

FAS COST
FAS RISK
FOB AIRPORT COST
FOB AIRPORT RISK

CIF RISK
C&F RISK
FOB PORT COST
FOB PORT RISK

CIF COST
C&F COST

DELIVERED AT FRONTIER COST
DELIVERED AT FRONTIER RISK

DELIVERED DUTY PAID COST*
DELIVERED DUTY PAID RISK*

* IF BUYER'S PREMISES ARE SPECIFIED

1- Chart shows the ending points of the seller's costs and risks. This diagram does not include all INCOTERMS and does not replace more complete publications and explanations.

FOR YOUR INFORMATION
Responsibilities under common INCOTERMS

	CIF	C&F	FAS	FOB(point)	FOB(port)

NOTE: This chart is not complete.

Inland freight	Seller	Seller	Seller	Seller(1) Buyer(1)	Seller(1) Buyer(1)
Unloading at U.S. port	Seller	Seller	Seller	Buyer	Seller
Wharfage/port charges (U.S.)	Seller	Seller	Seller	Buyer	Seller
Forwarder's fees	Seller	Seller	Buyer	Buyer	Seller
Loading (on ship/aircraft)	Seller(2) Buyer(2)	Seller(2) Buyer(2)	Buyer	Buyer	Seller(2)
Ocean/air freight	Seller(2) Buyer(2)	Seller(2) Buyer(2)	Buyer	Buyer	Buyer
Insurance	Seller	Buyer	Buyer	Buyer	Buyer
Unloading at overseas port	Buyer	Buyer(3)	Buyer	Buyer	Buyer
Wharfage/port charges (overseas)	Buyer	Buyer(3)	Buyer	Buyer	Buyer
Customs duties	Buyer	Buyer	Buyer	Buyer	Buyer
Inland freight (overseas)	Buyer	Buyer	Buyer	Buyer	Buyer

---

(1) Seller is responsible if freight prepaid; buyer is responsible if freight collect.

(2) Seller is responsible for the costs; risk of loss or damage transfers to the buyer when the goods cross the ship's rail at the U.S. port of export.

(3) If terms are "C&F landed," then the seller is responsible.

290

OBJECTIVE 5

Match terms associated with export pricing with their correct definitions.

Dumping—A pricing strategy, usually illegal, involving the export (or import) of goods into a foreign country below the costs of producing and shipping the goods, often causing damage to local manufacturers of the goods

Duty—A tax on imports, either ad valorem (based on a percentage of the stated value of the goods), specific (a flat charge based on weight or quantity), or combination (both ad valorem and specific)

Export price escalation—The increase in the export price resulting from the addition of shipping and insurance charges, duties, taxes, mark-ups, distributor's expenses, and other expenses to the manufacturer's quoted price

Perceived value—A target market influence on export pricing policies defined as the end-user's (customer's) perception of the export goods; factors include the product, company image and perceived expertise, and intangibles such as quality

Pro forma invoice—An export price quotation in the form of an invoice, including information about the type and quantity of goods to be shipped, their value, cost of the transaction under specific terms of sale, and other specifications; the manufacturer usually prepares this document in response to a foreign inquiry or when contacting a potential foreign representative

Quotation—An offer to sell goods at a stated price based on costs, terms of sale, and other specific conditions, and usually valid for a specified period of time

Tariff—A term often used instead of "duty," but usually meaning a system of duties in a foreign market

OBJECTIVE 6

Discuss the importance of a flexible pricing policy for export sales.

Export sales involve additional costs to the manufacturer, including many costs that are not components of domestic prices. Freight forwarding fees, insurance, duties, taxes and **other costs become a part of the final selling price as the goods move from the factory to the foreign end-user** ("price escalation"). Because of these added costs, U.S. companies should provide foreign distributors with the best prices possible. The distributor must compete in the foreign market against local competitors who do not have the added cost components that are a part of the U.S. supplier's pricing policy. The foreign distributor also assumes many functions and costs that are normally a part of your selling costs. Therefore, a pricing policy for export sales should be unique and should not include costs that are unrelated to the export sale. Some cost categories in export pricing may resemble domestic cost categories, such as administrative costs, promotion, and others. However, **a flexible pricing policy for export sales will assure the best possible price to account for price escalation, competitor's costs, and the foreign distributor's costs**.

OBJECTIVE 7

Explain the impact of factors affecting export pricing strategies.

Competition—Competitor's prices influence pricing strategies in export markets, just as domestic prices are influenced by domestic competition. If many competitors exist in a foreign market, you must usually equal or go below the market price to establish a market share. Competitive markets and "price chopping" as a market share strategy go together (assuming product/service equality).

NOTE: Your export objectives will also influence your responses to competitors in the foreign market.

Costs—Costs help determine export prices. The costs of producing goods for export markets can determine the financial feasibility of export operations. Export prices are greatly affected by price escalation. Therefore, only the manufacturer's specific costs relative to exporting should be considered.

Foreign exchange risk—Changes in foreign exchange rates, upward or downward, change the affordability of U.S. goods in foreign markets by making the goods more or less expensive to the buyer. Export managers should be aware of exchange rates and the stability of those rates for the currencies involved.

NOTE: The stability of foreign exchange for each possible target market should be a topic for market research activities and pricing strategies.

Foreign market demand—Degree of foreign market demand (high or low) for the goods will suggest the feasibility of exporting and can indicate acceptable price ranges within the foreign market. Types of potential buyers profiled within the total foreign market, and their ability to afford the goods, will affect pricing decisions and strategies.

NOTE: Per capita income in the foreign market could affect the pricing of consumer goods.

Import duties/taxes—Import duties or taxes can increase the price of imports in the foreign market relative to domestically-produced items (goods produced in the foreign market) or relative to imports from other countries which benefit from preferential duty/tax rates.

Perceived value—Manufacturers must understand the motivation behind a buyer's purchase in a foreign market. Some markets buy on price. Therefore, the price could be an excellent marketing tool or a marketing mistake.

EXAMPLE: If the buyer wonders "The price is so low, something must be wrong with this product [low perceived value]," a low price could be a mistake on the part of the manufacturer.

Pricing objectives—Pricing decisions and strategies vary according to the manufacturer's objectives in the target market. Expectations, low or high, also affect export pricing decisions and strategies.

EXAMPLE: To penetrate a foreign market, a U.S. company might intentionally cut much of the profit from its export price or modify the product to reduce the manufacturing costs (and lower the export price), in order to establish a position in the market.

Product differentiation—High differentiation (proprietary) often means higher prices; low differentiation (generic) often means lower prices.

Quality—High quality and higher prices often go together.

OBJECTIVE 8

Explain common components of an export price.

Cost of goods sold (CGS)—The cost of manufacturing the goods for export. These costs may be different for export goods than for domestic goods, due to any required product modifications reflecting standards in the target market, alternative uses, and the manufacturer's pricing objectives (such as modifying the product to its most basic form, in order to obtain the lowest possible cost).

Export documentation—The costs involved in preparing required export documents, whether provided in-house or through a freight forwarder.

Export packing—The costs of preparing the goods for export handling and shipping. These costs are generally in addition to the costs of standard domestic (U.S.) packing.

Freight forwarding—The fees charged by a freight forwarder for moving the goods to the foreign destination.

Insurance—The cost of protecting the goods against risks during shipment, generally under the seller's or buyer's policy or under the freight forwarder's own policy. Premiums will be charged to the seller, unless the buyer provides own insurance or unless the quoted terms of sale specify that the buyer is responsible for insurance.

NOTE: Some manufacturers may decide to purchase commercial and political risk insurance from the FCIA (Foreign Credit Insurance Association). This cost might be reflected in the export price. See Unit 10 for a discussion of risks in export sales.

Duties—Import duties in the foreign market.

NOTE: Import duties or taxes can increase the price of imports in the foreign market relative to domestically-produced items (goods produced in the foreign market) or relative to imports from other countries which benefit from preferential duty/tax rates.

Payment and collection—The costs involved in extending credit and/or collecting payment, including in-house costs and the fees for specialized banking services.

EXAMPLE: The costs of preparing payment documents, collecting payment, non-payment, and the costs of other types of banking/financial services

Administrative costs—The operating costs for export sales.

EXAMPLE: Organization and maintenance of export operations, including personnel; telephone, postage, FAX, telex and other charges for international communications; travel expenses; and other costs associated with export sales

Promotion costs—Similar to its domestic price component, but can also include export-specific costs such as translation and preparation of advertising materials. These costs may be shared between the seller and the foreign distributor.

Foreign distributor's mark-up—The percentage mark-up added by the foreign distributor to the total of the cost of goods sold.

Retail mark-up—The foreign retailer's percentage mark-up, added to the total of the cost of goods sold.

OBJECTIVE 9

Distinguish among options for countering the effects of export price escalation.

Production controls—Lower the "factory price" of the goods by more efficiently procuring raw materials and components; "value engineering" to modify the product for better value (a constant consideration); modifying the package for lower cost; and producing the goods in the foreign market (if feasible)

Shipping controls—Reduce the shipping costs by modifying the way the goods are packed or shipped; limiting the channel of distribution; and negotiating for better shipping rates

NOTE: You should evaluate the contribution of shipping costs to the export price in terms of (1) the potential to reduce costs through shipping controls, (2) the impression—positive or negative—created by the shipping controls on the foreign buyer, and (3) the effect of shipping controls on your competitive advantage (if shipping is one of your competitive advantages).

Other controls—Reducing margins, identifying other possible duty assessments, shipping the components for assembly in the foreign country, and other controls to lower the final selling price

OBJECTIVE 10

Distinguish among pricing alternatives.

NOTE: Pricing alternatives should reflect your unique pricing objectives.

DOMESTIC PRICING

- Uses the domestic (U.S.) price as a basis for calculating export price

  NOTE: This assumes the same level of pricing for foreign as for domestic, i.e., U.S. distributor for foreign distributor basis, U.S. dealer for foreign dealer basis.

- Calculates an export price that includes export costs and a share of domestic marketing costs
- Is easier to calculate and relies on a price base that is considered to be profitable and competitive
- May not produce a competitive price for foreign markets, due to presence of domestic marketing costs as a component of the price base, high base price by U.S. standards, or existence of lower-priced competition using a different pricing strategy

MARGINAL/INCREMENTAL COST PRICING

- Calculates an export price that includes a basic unit cost ("floor") representing the out-of-pocket costs of producing and selling goods for export, plus a markup to yield a desired profit margin
- Considers only the direct costs associated with export sales
- Involves analysis of the profit potential for export sales separately from domestic sales
- Can allow U.S. companies to determine highest competitive price for foreign markets and lowest possible price for profit

COST MODIFICATION

- Calculates an export price by modifying the domestic product for export markets
- Can involve adding to or subtracting from product quality, using less expensive materials, or simplifying the product
- Can increase or decrease the cost of producing goods for export, depending on the changes required

- May not produce a competitive price or allow for a satisfactory profit

OBJECTIVE 11

State basic guidelines for pricing goods for export.

- Determine export pricing objectives before determining prices.

  NOTE: Include export prices in your international marketing plan.

- Reflect specific export costs in export prices.

  EXAMPLE: Reflect the costs of export crating, freight, fees and other export-specific costs. Avoid including components of domestic prices, such as commissions, credit costs and non-applicable advertising.

- Investigate and use "perceived value" in export pricing strategies.

- Be aware of the effects of different terms of sale on export prices.

  NOTE: Different terms of sale involve different costs and risks for the seller and the buyer.

- Get qualified advice.

OBJECTIVE 12

Identify considerations for adapting a domestic price sheet for international sales.

ITEMS TO OMIT OR REPLACE

- P.O. Box addresses

  NOTE: Use your street address, if possible. Delivery services will not deliver to a Post Office Box.

- "800" telephone numbers

- References to geographic regions in the United States

  EXAMPLE: North, South, East, West, Northeast, Southwest, Northwest, Southeast, Midwest, Atlantic coast

- Words and phrases used in reference to domestic sales

  EXAMPLE: "Domestic," "consumer," "call for information"

ITEMS TO INCLUDE

- "USA" in the address
- FAX numbers
- Words and phrases used in reference to international sales

  EXAMPLE: "International," "contact for information"

- Metric equivalents for weights and dimensions
- Reference to an international sales program

  NOTE: Referring to the prices on the sheet as the "list" prices could also suggest to potential foreign distributors that the actual prices for them could be even better!

- Period of validity of the price sheet

OBJECTIVE 13 **State uses for pro forma invoices.**

SELLER'S USES

- To quote detailed export prices in response to a foreign inquiry for a quotation
- To orient the foreign buyer to the product and its specifications, including: shipping and payment terms; various handling and shipping charges; weights and dimensions; availability times and other details

BUYER'S USES

- To outline the buyer's costs associated with the transaction and assist the buyer in calculating the landed cost per unit
- To assist in arranging financing for the sale
- To assist in applying for an import license

OBJECTIVE 14

Outline the contents of a pro forma invoice.

NOTE: No special form is required for a pro forma invoice. Many companies use a "pro forma" stamp on the face of a standard invoice. However, every pro forma invoice should include basic information relating to the export sale.

- Buyer's and seller's name, address, and phone/FAX/telex numbers
- Highly-visible "PRO FORMA INVOICE" marking
- Reference number and/or date of inquiry
- Terms of payment and collection applicable to the quotation
- Quantity, model, description, unit price, and extension in U.S. dollars for each item

  NOTE: If you are using a trade discount from a list price, you may have to quote individual unit prices NET, or your buyer might be forced to pay duties on the higher-listed list price.

- Detail of charges per terms of sale

  EXAMPLE: This section could outline the charges in a CIF quotation: the FOB total (domestic packed); charges for export packing and inland freight; forwarder's and other fees and handling charges; the FAS total; freight; insurance; then the estimated CIF total.

- Estimated gross weight and net shipping weight (export packed), in metric units where needed
- Estimated total cubic volume and shipping dimensions (export packed), in metric units where needed
- Statement that quotations are in U.S. dollars
- Statement of country of origin of the goods

- Period of validity of the invoice

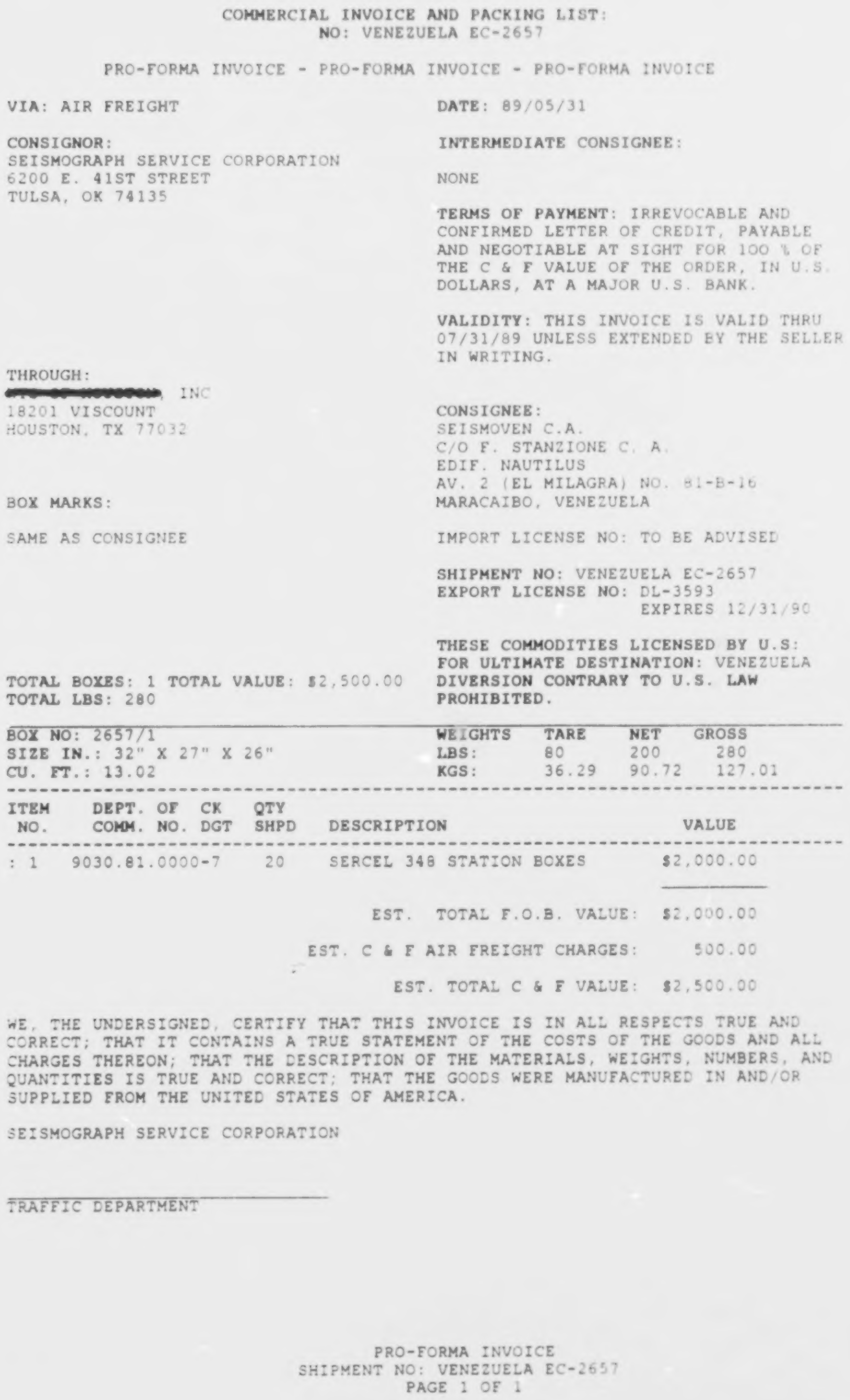
  IMPORTANT: The statement of the period of validity of the pro forma invoice is often overlooked, especially when a standard invoice is stamped and used as a pro forma invoice. A standard invoice is for **action completed** (therefore no expiry date is listed). However, a pro forma invoice is your **commitment for future action**. If you do not identify the period of validity of the pro forma invoice, then the foreign buyer could assume that the information on the invoice is valid indefinitely!

- Estimated shipping and arrival dates

- Statement that the listed information may be subject to export license approval

  NOTE: See Unit 17 for a discussion of U.S. export regulations and licensing requirements.

- Signature and title of the preparer of the invoice



COMMERCIAL INVOICE AND PACKING LIST:
NO: VENEZUELA EC-2657

PRO-FORMA INVOICE - PRO-FORMA INVOICE - PRO-FORMA INVOICE

VIA: AIR FREIGHT

DATE: 89/05/31

CONSIGNOR:
SEISMOGRAPH SERVICE CORPORATION
6200 E. 41ST STREET
TULSA, OK 74135

INTERMEDIATE CONSIGNEE:

NONE

TERMS OF PAYMENT: IRREVOCABLE AND CONFIRMED LETTER OF CREDIT, PAYABLE AND NEGOTIABLE AT SIGHT FOR 100 % OF THE C & F VALUE OF THE ORDER, IN U.S. DOLLARS, AT A MAJOR U.S. BANK.

VALIDITY: THIS INVOICE IS VALID THRU 07/31/89 UNLESS EXTENDED BY THE SELLER IN WRITING.

THROUGH:
[redacted], INC
18201 VISCOUNT
HOUSTON, TX 77032

CONSIGNEE:
SEISMOVEN C.A.
C/O F. STANZIONE C. A.
EDIF. NAUTILUS
AV. 2 (EL MILAGRA) NO. 81-B-16
MARACAIBO, VENEZUELA

BOX MARKS:

SAME AS CONSIGNEE

IMPORT LICENSE NO: TO BE ADVISED

SHIPMENT NO: VENEZUELA EC-2657
EXPORT LICENSE NO: DL-3593
EXPIRES 12/31/90

THESE COMMODITIES LICENSED BY U.S: FOR ULTIMATE DESTINATION: VENEZUELA
DIVERSION CONTRARY TO U.S. LAW PROHIBITED.

TOTAL BOXES: 1 **TOTAL VALUE:** $2,500.00
TOTAL LBS: 280

BOX NO: 2657/1
SIZE IN.: 32" X 27" X 26"
CU. FT.: 13.02

WEIGHTS	**TARE**	**NET**	**GROSS**
LBS:	80	200	280
KGS:	36.29	90.72	127.01

ITEM NO.	**DEPT. OF COMM. NO.**	**CK DGT**	**QTY SHPD**	**DESCRIPTION**	**VALUE**
: 1	9030.81.0000	-7	20	SERCEL 348 STATION BOXES	$2,000.00

EST. TOTAL F.O.B. VALUE: $2,000.00

EST. C & F AIR FREIGHT CHARGES: 500.00

EST. TOTAL C & F VALUE: $2,500.00

WE, THE UNDERSIGNED, CERTIFY THAT THIS INVOICE IS IN ALL RESPECTS TRUE AND CORRECT; THAT IT CONTAINS A TRUE STATEMENT OF THE COSTS OF THE GOODS AND ALL CHARGES THEREON; THAT THE DESCRIPTION OF THE MATERIALS, WEIGHTS, NUMBERS, AND QUANTITIES IS TRUE AND CORRECT; THAT THE GOODS WERE MANUFACTURED IN AND/OR SUPPLIED FROM THE UNITED STATES OF AMERICA.

SEISMOGRAPH SERVICE CORPORATION

____
TRAFFIC DEPARTMENT

PRO-FORMA INVOICE
SHIPMENT NO: VENEZUELA EC-2657
PAGE 1 OF 1

FIGURE 11-1. Example of a pro forma invoice. (Courtesy of Seismograph Service Corporation, Tulsa, Oklahoma.)

EXPORT QUOTATION WORKSHEET

DIRECTIONS

- Complete this Supplement to help calculate export quotations under different terms of sale.
- Consult a freight forwarder for any cost elements that might not be included in this Supplement.

EXPORT QUOTATION WORKSHEET

REFERENCE DATA

Our reference: ____________ Buyer's reference: ____________

Origin: ____________ Destination: ____________

BUYER DATA

____
(Name)

____
(Street address)

____
(City) (Country)

____
(Phone) (Name of contact person)

____
(FAX/Telex Number) (Title of contact person)

PRODUCT DATA

Product: ______________________________

Type of package: ______ Box ______ Barrel/drum ______ Other (state) ____________

Dimensions (single item): ________ Cubic inches

________ Cubic feet

Quantity (number and units): ________

Dimensions (total): ________ Cubic inches

________ Cubic feet

EXPORT QUOTATION WORKSHEET

Weight: __________ NET __________ (Metric)

__________ GROSS __________ (Metric)

Schedule B Number: ____

COST ELEMENTS

Product charges

Unit price (or cost) __________

Number of units __________

NET PRICE/COST __________

Profit (or mark-up) __________

Commissions __________

TOTAL FOB Factory __________

Fees

Freight forwarder's fees __________

Financing costs __________

Export packing __________

Marking/labeling __________

Inland freight
from __________
to __________ __________

Other charges (identify) __________

TOTAL FOB Port __________

Port/Documentation Charges

Unloading charge (heavy lift) __________

Terminal charge __________

EXPORT QUOTATION WORKSHEET

Pier delivery ____________

Wharfage charge ____________

Container rental ____________

Documentation ____________

Other charges (identify) ____________

TOTAL FAS Vessel (or airplane) ____________

Freight

___ Weight (√) ___ Measure (√)

___ Ocean (√) ___ Air (√)

Freight charge ____________

Bunker surcharge ____________

Port congestion surcharge ____________

Country landing charge ____________

Other charges (identify) ____________

TOTAL C&F ____________

Insurance ____________

TOTAL CIF ____________

ASSIGNMENT 1

TERMS OF SALE

11

Name ______________________ Score __________

OBJECTIVE 15

Interpret common Incoterms.

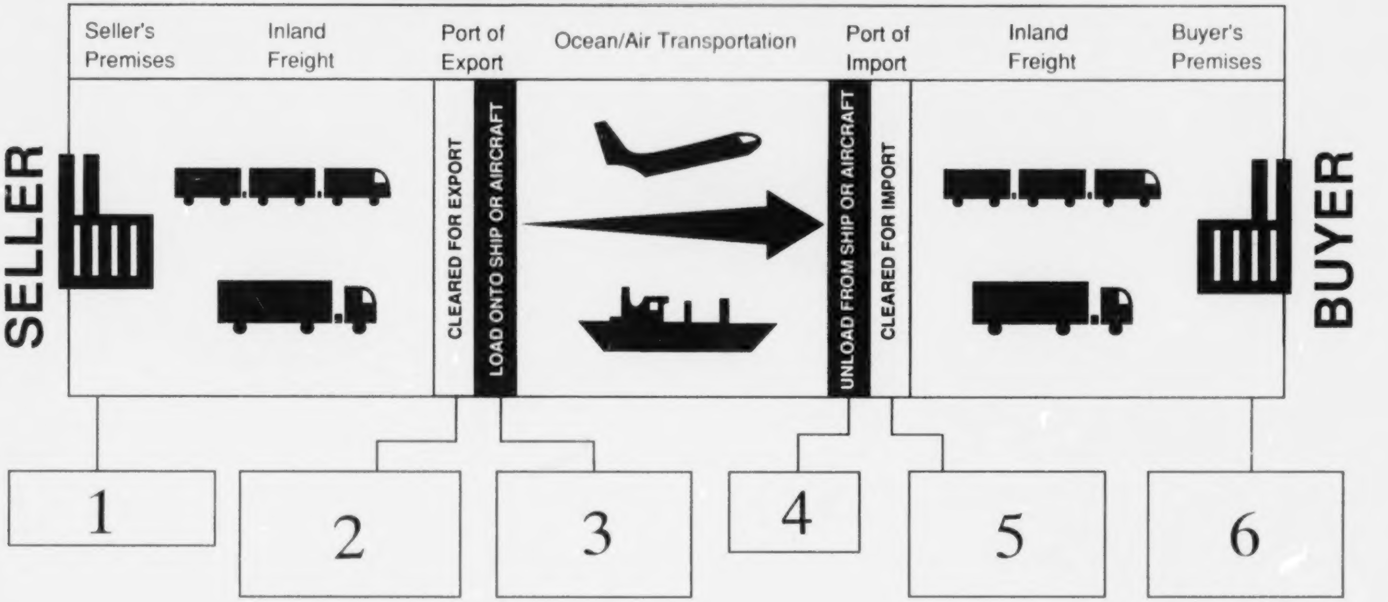
INTRODUCTION

Agreed-upon terms of sale can help prevent costly misunderstandings in export sales, by identifying the obligations of the buyer and the seller in the transaction. Obligations can include the extent of the buyer's and seller's responsibility for loss or damage to the goods during shipment, including the obligation to obtain insurance. Terms of sale also state the terms of delivery, provide a meaningful price quotation to potential buyers, and identify the buyer's and seller's costs associated with specific responsibilities.

DIRECTIONS

- Study the diagram on the next page, then answer the questions that follow.

Seller's Costs and Risks


Seller's Premises
Inland Freight
Port of Export
Ocean/Air Transportation
Port of Import
Inland Freight
Buyer's Premises
SELLER
CLEARED FOR EXPORT
LOAD ONTO SHIP OR AIRCRAFT
UNLOAD FROM SHIP OR AIRCRAFT
CLEARED FOR IMPORT
BUYER
1
2
3
4
5
6

1. What Incoterm identifies the buyer's maximum costs and risks?

   ____

2. Which party, the buyer or the seller, is responsible for freight forwarding fees under the Incoterm in Box 1?

   ____

3. Which box shows the ending point of the seller's cost under CIF and C&F?

   ____

4. Box 4 is the ending point for the seller's costs under which Incoterms?

   ____

5. Which box shows the ending point of the seller's costs and risks under FAS and FOB AIRPORT?

   ____

6. Which party, the buyer or the seller, pays for insurance between the port of import and the buyer's premises under CIF?

   ____

7. Which box shows the ending point of the seller's costs and risks under DELIVERED DUTY PAID?

   ____

8. Which party, the buyer or the seller, pays for air freight under FAS?

   ____

9. Which party, the buyer or the seller, pays for ocean freight under FOB PORT?

   ____

10. At which box do the buyer's costs and risks begin under CIF or C&F?

    ____

11. At which box does the buyer's responsibility begin for insurance costs under FAS?

    ____

12. Which party, the buyer or the seller, is responsible for loading the goods at the port of export under FOB PORT?

____

TERMS OF SALE

Name ______________________ Score ________

OBJECTIVE 16

Adapt a domestic price sheet for international sales.

INTRODUCTION

A price sheet is a valuable marketing tool, for both domestic and international sales. However, some of the items that may appear on your price sheet for your domestic customers are not appropriate for your international customers. Such items can be confusing to a potential foreign buyer, and can even make communication more difficult.

DIRECTIONS

- Study the sample price sheet.
- Circle all of the items on the price sheet that should be omitted or replaced and explain why you have circled each item. Also explain any items that you would add to the price sheet.

XYZ COMPANY
P.O. Box 1234
Anytown, Oklahoma 74000
(918) 555-5678 / 1-800-555-1234

CONSUMER PRICE SHEET
Effective September 1, 1990

MODEL	DESCRIPTION	WEIGHT IN LBS.	LIST PRICE ($)	DIMENSIONS
2010	2" valve #150	150	135.00	10" X 8" X 25"
2020	3" valve #250	165	165.00	11" X 10" X 28"
3010	3" valve #150	185	150.00	12" X 12" X 30"
3020	3" valve #250	200	190.00	13" X 12" X 32"
4020	4" valve #150	250	175.00	15" X 14" X 34"
4040	4" valve #250	300	225.00	16" X 16" X 40"
5030	6" valve #150	350	215.00	18" X 18" X 38"
5050	6" valve #250	400	290.00	20" X 18" X 42"

CALL FOR INFORMATION AND PRICES FOR OUR COMPLETE LINE OF CONTROL VALVES. PARTS AND ACCESSORIES AVAILABLE FOR ALL MODELS. ASK FOR OUR FREE CATALOG.

ALL PRICES F.O.B. ANYTOWN, OKLAHOMA. MOST MODELS ALSO AVAILABLE FROM OUR NORTHEAST DISTRIBUTION CENTER.

NOTES ABOUT PRICE SHEET CHANGES

ITEM # EXPLANATION OF CHANGE

Name ______________________ Score ________

OBJECTIVE 17 **Quote export prices under FOB, FAS and CIF terms.**

INTRODUCTION A quotation is an offer to sell goods at a stated price based on costs, terms of sale, and other specific conditions, and usually valid for a specified period of time. Terms of sale state the terms of delivery, provide a meaningful price quotation to potential buyers, and identify the buyer's and seller's costs associated with specific responsibilities. The manufacturer usually provides this information in response to a foreign inquiry or when contacting a potential foreign representative.

DIRECTIONS

- Review the product and price information below.
- Answer the questions at the end of this Assignment.

MODEL	DESCRIPTION	WEIGHT IN LBS.	LIST PRICE ($)
2010	2" valve #150	150	135.00
2020	3" valve #250	165	165.00
3010	3" valve #150	185	150.00
3020	3" valve #250	200	190.00
4020	4" valve #150	250	175.00
4040	4" valve #250	300	225.00
5030	6" valve #150	.350	215.00
5050	6" valve #250	400	290.00

1. A potential buyer requests a quotation for the following:

QUANTITY	MODEL
2	3010

Inland freight is 3% of order value, minimum $150.00. The list price includes domestic packing. Estimated air freight is $2.04 per lb. Estimated insurance is $1.05.

a. What is your estimated quote FOB Anytown, Oklahoma?

b. What is your estimated quote FAS Dallas/FW Airport Texas?

c. What is your estimated quote CIF Frankfurt, Germany?

2. A potential buyer requests a quotation for the following:

QUANTITY	MODEL
50	2010
45	3010
36	4020
17	5030
9	5050

The order will require 8 crates, each measuring 60" L X 72" W X 60" H. Seven of the crates each weigh 4,297 lbs. One crate weighs 4,296 lbs. The total weight is 34,375 lbs. (15,592 kilograms). The total volume is 1,200 cubic feet (33.98 cubic meters).

Inland freight to Houston (using Tulsa as the starting point) for one truckload is quoted at $750.00. Unloading at Houston Port is calculated at $.47 per 100 lbs. Wharfage at Houston Port is calculated at $1.90 per 2,000 lbs. Documentation and handling fees are quoted at $100.00. Ocean freight (Houston to Buenos Aires) is quoted at $5,913.88. Insurance is quoted at $193.65. The list price includes domestic packing.

a. What is your estimated quote FOB Anytown, Oklahoma?

____

b. What is your estimated quote FAS Houston (Port), Texas?

____

c. What is your estimated quote CIF Buenos Aires (Port), Argentina?

____

ASSIGNMENT ANSWERS

TERMS OF SALE

11

ASSIGNMENT 1

1. EX FACTORY
2. Buyer
3. Box 4
4. CIF and C&F
5. Box 2
6. Buyer
7. Box 6
8. Buyer
9. Buyer
10. Box 4
11. Box 2
12. Seller

ASSIGNMENT 2

See the following form and notes.

XYZ COMPANY
P.O. Box 1234
Anytown, Oklahoma 74000
(918) 555-5678 / 1-800-555-1234

CONSUMER PRICE SHEET
Effective September 1, 1990

MODEL	DESCRIPTION	WEIGHT IN LBS.	LIST PRICE ($)	DIMENSIONS
2010	2" valve #150	150	135.00	10" X 8" X 25"
2020	3" valve #250	165	165.00	11" X 10" X 28"
3010	3" valve #150	185	150.00	12" X 12" X 30"
3020	3" valve #250	200	190.00	13" X 12" X 32"
4020	4" valve #150	250	175.00	15" X 14" X 34"
4040	4" valve #250	300	225.00	16" X 16" X 40"
5030	6" valve #150	350	215.00	18" X 18" X 38"
5050	6" valve #250	400	290.00	20" X 18" X 42"

CALL FOR INFORMATION AND PRICES FOR OUR COMPLETE LINE OF CONTROL VALVES. PARTS AND ACCESSORIES AVAILABLE FOR ALL MODELS. ASK FOR OUR FREE CATALOG.

ALL PRICES F.O.B. ANYTOWN, OKLAHOMA. MOST MODELS ALSO AVAILABLE FROM OUR NORTHEAST DISTRIBUTION CENTER.

NOTES ABOUT PRICE SHEET CHANGES

ITEM #	EXPLANATION OF CHANGE
1	Omit the P.O. Box address. Replace it with the street address, if possible.
2	Add "USA" in the address.
3	Omit the "800" telephone number. Replace with a FAX number, if possible.
4	Replace the word "consumer" with "international."
5	State how long the price sheet is valid (in addition to when it becomes effective).
6	Use metric equivalents in the descriptions.
7	Use metric equivalents for weights.
8	Use metric equivalents for the dimensions.
9	Replace the word "call" with the word "contact." Reference your international sales program.
10	Omit the reference to "northeast" (a geographic region in the United States).

ASSIGNMENT 3

1. a. $300.00 (the value of two of model 3010)

   b. $450.00 (the FOB quote, plus the minimum charge for inland freight)

   c. $1,205.85 (the FAS quote, plus insurance, plus air freight of $2.04 X 370 lbs.)

2. a. $26,065.00 (the value of the models listed)

   b. $27,109.22 (see below)

   c. $33,216.75 (see below)

TOTAL FOB Anytown	$ 26,065.00
Inland Freight Tulsa to Houston 1 truckload	750.00
Unloading at Houston Port	161.56
Wharfage at Houston Port	32.66
Documentation and Handling	100.00
TOTAL FAS Houston	$ 27,109.22
Ocean Freight (Houston to Buenos Aires)	5,913.88
Insurance	193.65
TOTAL CIF Buenos Aires	$ 33,216.75

QUICK CHECK

TERMS OF SALE

11

Name ______________________ Score ________

OBJECTIVE 1

Explain the importance of agreed-upon terms of sale. Include as many main points as possible.

OBJECTIVE 2

Define Incoterms.

OBJECTIVE 3

Match commonly-used Incoterms with their correct definitions. Write the correct Incoterm in the blank beside each definition.

________________ 1. Seller quotes a price that covers cost, insurance, and freight, including all transportation and miscellaneous charges to the point of debarkation from the vessel or aircraft.

________________ 2. Seller assumes all costs and risks to bring the export goods to the frontier, but before the "customs border" of the named country in the sales agreement.

________________ 3. Seller assumes all costs and risks to bring the export goods to the named port of import, except the cost of insurance. However, the risk of loss or damage to the goods is transferred to the buyer when the goods pass the ship's rail in the port of export.

________________ 4. The quoted price applies only at the named point of origin. Seller assumes all costs and risks to bring the export goods to the named point. Buyer assumes all costs and risks from the named point.

________________ 5. Seller assumes all costs and risks to bring the export goods to the named port of export, including the costs of unloading and wharfage. Buyer assumes all costs and risks for loading, transporting, and insuring the goods from the named port.

________________ 6. Identifies the seller's maximum obligations if the buyer's premises are specified. Seller assumes all costs and risks to bring the export goods from the seller's premises to the buyer's premises.

________________ 7. Seller assumes all costs and risks to bring the export goods to the named inland point or port of export. Buyer assumes all following costs and risks.

OBJECTIVE 4

Identify the seller's costs and risks under common Incoterms. Study the diagram on the next page. Write the seller's costs and risks associated with each numbered box.

1. ______________________________

2. ______________________________

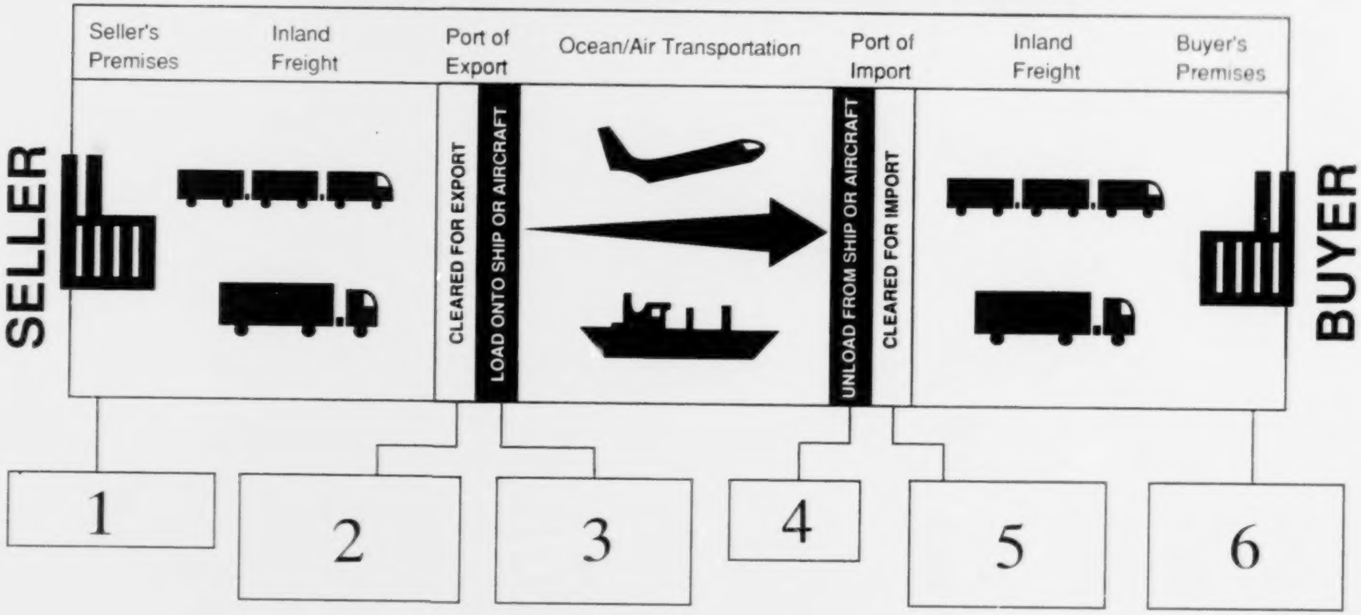
3. ______________________________

4. ______________________________

5. ______________________________

6. ______________________________

Seller's Costs and Risks


Seller's Premises
Inland Freight
Port of Export
Ocean/Air Transportation
Port of Import
Inland Freight
Buyer's Premises
SELLER
CLEARED FOR EXPORT
LOAD ONTO SHIP OR AIRCRAFT
UNLOAD FROM SHIP OR AIRCRAFT
CLEARED FOR IMPORT
BUYER
1
2
3
4
5
6

OBJECTIVE 5

Match terms associated with export pricing with their correct definitions. Write the correct letter in each blank.

____ 1. A term often used instead of "duty," but usually meaning a system of duties in a foreign market

____ 2. A tax on imports, either ad valorem (based on a percentage of the stated value of the goods), specific (a flat charge based on weight or quantity), or combination (both ad valorem and specific)

____ 3. A target market influence on export pricing policies defined as the end-user's (customer's) perception of the export goods; factors include the product, company image and perceived expertise, and intangibles such as quality

____ 4. The increase in the export price resulting from the addition of shipping and insurance charges, duties, taxes, mark-ups, distributor's expenses, and other expenses to the manufacturer's quoted price

____ 5. An export price quotation in the form of an invoice, including information about the type and quantity of goods to be shipped, their value, cost of the transaction under specific terms of sale, and other specifications; the manufacturer usually prepares this document in response to a foreign inquiry or when contacting a potential foreign representative

____ 6. A pricing strategy, usually illegal, involving the export (or import) of goods into a foreign country below the costs of producing and shipping the goods, often causing damage to local manufacturers of the goods

____ 7. An offer to sell goods at a stated price based on costs, terms of sale, and other specific conditions, and usually valid for a specified period of time

a. Dumping
b. Duty
c. Export price escalation
d. Perceived value
e. Pro forma invoice
f. Quotation
g. Tariff

OBJECTIVE 6

Discuss the importance of a flexible pricing policy for export sales. Include as many main points as possible.

OBJECTIVE 7

Explain the impact of factors affecting export pricing strategies. Choose five (5) factors and briefly explain each.

1.

2.

3.

4.

5.

OBJECTIVE 8

Explain common components of an export price. Choose six (6) common components and briefly explain each.

1.

2.

3.

4.

5. ______________________________

____

____

____

6. ______________________________

____

____

____

OBJECTIVE 9

Distinguish among options for countering the effects of export price escalation. Write the name of the correct option in the space below each description.

1. Lower the "factory price" of the goods by more efficiently procuring raw materials and components; "value engineering" to modify the product for better value (a constant consideration); modifying the package for lower cost; and producing the goods in the foreign market (if feasible)

____

2. Reduce the shipping costs by modifying the way the goods are packed or shipped; limiting the channel of distribution; and negotiating for better shipping rates

____

3. Reducing margins, identifying other possible duty assessments, shipping the components for assembly in the foreign country, and other controls to lower the final selling price

____

OBJECTIVE 10

Distinguish among pricing alternatives. In each blank, write "DP" for domestic pricing, "MC" for marginal/incremental cost pricing, or "CM" for cost modification.

____ 1. Can increase or decrease the cost of producing goods for export, depending on the changes required

____ 2. Is easier to calculate and relies on a price base that is considered to be profitable and competitive

____ 3. May not produce a competitive price for foreign markets, due to presence of domestic marketing costs as a component of the price base, high base price by U.S. standards, or existence of lower-priced competition using a different pricing strategy

____ 4. Calculates an export price that includes a basic unit cost ("floor") representing the out-of-pocket costs of producing and selling goods for export, plus a markup to yield a desired profit margin

____ 5. May not produce a competitive price or allow for a satisfactory profit

____ 6. Calculates an export price by modifying the domestic product for export markets

____ 7. Considers only the direct costs associated with export sales

____ 8. Involves analysis of the profit potential for export sales separately from domestic sales

____ 9. Uses the domestic (U.S.) price as a basis for calculating export price

____ 10. Can allow U.S. companies to determine highest competitive price for foreign markets and lowest possible price for profit

____ 11. Calculates an export price that includes export costs and a share of domestic marketing costs

____ 12. Can involve adding to or subtracting from product quality, using less expensive materials, or simplifying the product

OBJECTIVE 11

State basic guidelines for pricing goods for export. State three (3) guidelines.

1. ______________________________

2. ______________________________

3. ______________________________

OBJECTIVE 12

Identify considerations for adapting a domestic price sheet for international sales. For each item that should be included in a price sheet for international sales, write a "Y" in the blank. For each item that should be omitted or replaced, write an "N" in the blank.

____ 1. P.O. Box addresses

____ 2. References to geographic regions in the United States

____ 3. Metric equivalents for weights and dimensions

____ 4. "USA" in the address

____ 5. FAX numbers

____ 6. "800" telephone numbers

____ 7. Reference to an international sales program

____ 8. Period of validity of the price sheet

OBJECTIVE 13

State uses for pro forma invoices. State three (3) uses.

1. ______________________________

2. ______________________________

3. ______________________________

OBJECTIVE 14

Outline the contents of a pro forma invoice. List ten (10) items included in the invoice.

1. ______________________________

____

2. ______________________________

____

3. ______________________________

____

4. ______________________________

____

5. ______________________________

____

6. ______________________________

____

7. ______________________________

____

8. ______________________________

____

9. ______________________________

____

10. ______________________________

____

NOTICE

The objectives listed below are not part of the Quick Check.

OBJECTIVE 15

Interpret common Incoterms. SCORE ________

OBJECTIVE 16

Adapt a domestic price sheet for international sales. SCORE ________

OBJECTIVE 17

Quote export prices under FOB, FAS and CIF terms. SCORE ________

QUICK CHECK ANSWERS

TERMS OF SALE

11

OBJECTIVE 1

Agreed-upon terms of sale can help prevent costly misunderstandings in export sales, by identifying the obligations of the buyer and the seller in the transaction. Obligations can include the extent of the buyer's and seller's responsibility for loss or damage to the goods during shipment, including the obligation to obtain insurance. Terms of sale also state the terms of delivery, provide a meaningful price quotation to potential buyers, and identify the buyer's and seller's costs associated with specific responsibilities.

OBJECTIVE 2

Incoterms—Terms of sale used in international trade, issued by the International Chamber of Commerce and replacing the Revised Foreign Trade Definitions of 1941 as the world standard; when explicitly accepted by the buyer and the seller, these terms assign specific risks and obligations to the buyer and the seller in an export transaction

OBJECTIVE 3

1. CIF
2. DELIVERED AT FRONTIER
3. C&F
4. EX
5. FAS
6. DELIVERED DUTY PAID
7. FOB

OBJECTIVE 4

1. EX FACTORY COST
   EX FACTORY RISK
2. FAS COST
   FAS RISK
   FOB AIRPORT COST
   FOB AIRPORT RISK
3. CIF RISK
   C&F RISK
   FOB PORT COST
   FOB PORT RISK
4. CIF COST
   C&F COST
5. DELIVERED AT FRONTIER COST
   DELIVERED AT FRONTIER RISK
6. DELIVERED DUTY PAID COST
   DELIVERED DUTY PAID RISK

OBJECTIVE 5

1. g
2. b
3. d
4. c
5. e
6. a
7. f

OBJECTIVE 6

Export sales involve additional costs to the manufacturer, including many costs that are not components of domestic prices. Freight forwarding fees, insurance, duties, taxes and **other costs become a part of the final selling price as the goods move from the factory to the foreign end-user** ("price escalation"). Because of these added costs, U.S. companies should provide foreign distributors with the best prices possible. The distributor must compete in the foreign market against local competitors who do not have the added cost components that are a part of the U.S. supplier's pricing policy. The foreign distributor also assumes many functions and costs that are normally a part of your selling costs. Therefore, a pricing policy for export sales should be unique and should not include costs that are unrelated to the export sale. Some cost categories in export pricing may resemble domestic cost categories, such as administrative costs, promotion, and others. However, **a flexible pricing policy for export sales will assure the best possible price to account for price escalation, competitor's costs, and the foreign distributor's costs**.

OBJECTIVE 7

Any five of the following:

Competition—Competitor's prices influence pricing strategies in export markets, just as domestic prices are influenced by domestic competition. If many competitors exist in a foreign market, you must usually equal or go below the market price to establish a market share. Competitive markets and "price chopping" as a market share strategy go together (assuming product/service equality).

Costs—Costs help determine export prices. The costs of producing goods for export markets can determine the financial feasibility of export operations. Export prices are greatly affected by price escalation. Therefore, only the manufacturer's specific costs relative to exporting should be considered.

Foreign exchange risk—Changes in foreign exchange rates, upward or downward, change the affordability of U.S. goods in foreign markets by making the goods more or less expensive to the buyer. Export managers should be aware of exchange rates and the stability of those rates for the currencies involved.

Foreign market demand—Degree of foreign market demand (high or low) for the goods will suggest the feasibility of exporting and can indicate acceptable price ranges within the foreign market. Types of potential buyers profiled within the total foreign market, and their ability to afford the goods, will affect pricing decisions and strategies.

Import duties/taxes—Import duties or taxes can increase the price of imports in the foreign market relative to domestically-produced items (goods produced in the foreign market) or relative to imports from other countries which benefit from preferential duty/tax rates.

Perceived value—Manufacturers must understand the motivation behind a buyer's purchase in a foreign market. Some markets buy on price. Therefore, the price could be an excellent marketing tool or a marketing mistake.

Pricing objectives—Pricing decisions and strategies vary according to the manufacturer's objectives in the target market. Expectations, low or high, also affect export pricing decisions and strategies.

Product differentiation—High differentiation (proprietary) often means higher prices; low differentiation (generic) often means lower prices.

Quality—High quality and higher prices often go together.

OBJECTIVE 8

Any six of the following:

Cost of goods sold (CGS)—The cost of manufacturing the goods for export. These costs may be different for export goods than for domestic goods, due to any required product modifications reflecting standards in the target market, alternative uses, and the manufacturer's pricing objectives (such as modifying the product to its most basic form, in order to obtain the lowest possible cost).

Export documentation—The costs involved in preparing required export documents, whether provided in-house or through a freight forwarder.

Export packing—The costs of preparing the goods for export handling and shipping. These costs are generally in addition to the costs of standard domestic (U.S.) packing.

Freight forwarding—The fees charged by a freight forwarder for moving the goods to the foreign destination.

Insurance—The cost of protecting the goods against risks during shipment, generally under the seller's or buyer's policy or under the freight forwarder's own policy. Premiums will be charged to the seller, unless the buyer provides own insurance or unless the quoted terms of sale specify that the buyer is responsible for insurance.

Duties—Import duties in the foreign market.

Payment and collection—The costs involved in extending credit and/or collecting payment, including in-house costs and the fees for specialized banking services.

Administrative costs—The operating costs for export sales.

Promotion costs—Similar to its domestic price component, but can also include export-specific costs such as translation and preparation of advertising materials. These costs may be shared between the seller and the foreign distributor.

Foreign distributor's mark-up—The percentage mark-up added by the foreign distributor to the total of the cost of goods sold.

Retail mark-up—The foreign retailer's percentage mark-up, added to the total of the cost of goods sold.

OBJECTIVE 9

1. Production controls
2. Shipping controls
3. Other controls

OBJECTIVE 10

1. CM
2. DP
3. DP
4. MC
5. CM
6. CM
7. MC
8. MC
9. DP
10. MC
11. DP
12. CM

OBJECTIVE 11

Any three of the following:

- Determine export pricing objectives before determining prices.
- Reflect specific export costs in export prices.
- Investigate and use "perceived value" in export pricing strategies.
- Be aware of the effects of different terms of sale on export prices.
- Get qualified advice.

OBJECTIVE 12

1. N
2. N
3. Y
4. Y
5. Y
6. N
7. Y
8. Y

OBJECTIVE 13

Any three of the following:

SELLER'S USES

- To quote detailed export prices in response to a foreign inquiry for a quotation
- To orient the foreign buyer to the product and its specifications, including: shipping and payment terms; various handling and shipping charges; weights and dimensions; availability times and other details

BUYER'S USES

- To outline the buyer's costs associated with the transaction and assist the buyer in calculating the landed cost per unit
- To assist in arranging financing for the sale
- To assist in applying for an import license

OBJECTIVE 14

Any ten of the following:

- Buyer's and seller's name, address, and phone/FAX/telex numbers
- Highly-visible "PRO FORMA INVOICE" marking
- Reference number and/or date of inquiry
- Terms of payment and collection applicable to the quotation
- Quantity, model, description, unit price, and extension in U.S. dollars for each item
- Detail of charges per terms of sale
- Estimated gross weight and net shipping weight (export packed), in metric units where needed
- Estimated total cubic volume and shipping dimensions (export packed), in metric units where needed
- Statement that quotations are in U.S. dollars
- Statement of country of origin of the goods
- Period of validity of the invoice
- Estimated shipping and arrival dates
- Statement that the listed information may be subject to export license approval
- Signature and title of the preparer of the invoice

UNIT OBJECTIVES

FINANCING

12

INTRODUCTION

U.S. manufacturers (the "seller") might require financing for their export sales for different reasons. The manufacturer might require working capital before any actual export sales, in order to produce and/or prepare the goods or services for export. The manufacturer might also need export financing in order to offer competitive credit terms to the foreign buyer, to provide needed funds equal to the export sale while the sale is outstanding, or to support promotion, selling, shipping, and other activities.

UNIT OBJECTIVE

After completing this unit, you will be familiar with different options available for financing export sales. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you will be able to

1. Match terms associated with financing export sales with their correct definitions.
2. Explain the need for export financing.
3. Explain major considerations affecting export financing decisions.
4. Distinguish between costs associated with commercial loans and bankers acceptance financing.
5. Identify sources of pre-shipment financing.
6. Identify sources of post-shipment financing.

PREPARATION

- Order additional materials to supplement this unit.

  Publications

  - *A Basic Guide to Exporting* (Current edition). Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; through Government Bookstores; or contact Department of Commerce district offices.
  - *Trade Digest* (Vol. 1, No. 9). Available from the Center for International Trade Development, Hall of Fame and Washington, Stillwater, Oklahoma 74078-0390.

  NOTE: Also see the Unit References.

- Review the unit and plan your presentation:
  - Estimate the amount of material that can be covered in each class session.
  - Plan for appropriate Assignments.
  - Identify objectives that you can supplement with other resources.
  - Invite guest speakers in advance.

    EXAMPLE: Area exporters, Department of Commerce specialists, banking specialists, CITD trade specialists/analysts

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities.

DELIVERY

Objectives 1-2

- Describe possible circumstances requiring export financing.

Objective 3

- Give examples of each consideration and its effects on financing decisions.

Objectives 4-6

- Invite qualified banking specialists to discuss commercial loans, banker's acceptance financing, and other options for financing export operations.

EVALUATION

- Give the Quick Check soon after presenting the unit.
- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- *A Basic Guide to Exporting*, U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service. September 1986.
- "Fundamentals of Exporting" and "Shipping and Documentation" workshops, offered by Oklahoma International Export Services (OIES), a joint program of the Oklahoma Department of Commerce and the U.S. and Foreign Commercial Service of the U.S. Department of Commerce.

SPECIFIC OBJECTIVES

FINANCING 12

OBJECTIVE 1

Match terms associated with financing export sales with their correct definitions.

Bankers acceptance—A negotiable credit or time draft, with or without a letter of credit, accepted for payment by a bank and (1) payable upon maturity or (2) sold to a U.S. bank for immediate payment

NOTE: The draft becomes a bankers acceptance when the bank examines and approves the draft, the bill of lading, and the commercial invoice, and stamps the draft "accepted."

Commercial loan—A loan to finance export sales until payment is received, including loans for working capital and for revolving lines of credit

Export-Import Bank of the United States (Eximbank)—A public corporation that helps finance U.S. exports through loans and loan guarantees (and insurance options through FCIA)

Foreign Credit Insurance Association (FCIA)—A quasi-public insurance association that provides for commercial and political risk insurance in partnership with the Eximbank

Overseas Private Investment Corporation (OPIC)—A U.S. Government-owned corporation that offers specialized financing services, political risk insurance and other insurance options

Private Export Funding Corporation (PEFCO)—A private corporation owned by investors, mostly commercial banks, that provides medium-term and long-term loans to foreign borrowers for buying U.S. goods and services

Trade acceptance—A formal demand for future payment sent to the buyer's bank with required shipping documents, after the goods are shipped; the buyer's bank releases the shipping documents allowing the buyer to take possession of the goods, only after the buyer signs a time draft (the buyer's "acceptance"), promising to pay within a certain time period

IMPORTANT: A trade acceptance is riskier than a banker's acceptance. A banker's acceptance is backed by the credit of the bank. With a trade acceptance, the seller must depend on the buyer's creditworthiness. The seller's bank and the buyer's bank facilitate the transaction but have no responsibility to pay. The time draft allows the seller to extend credit to the foreign buyer by demanding future payment. However, the foreign buyer will have the goods, while the seller has simply the buyer's promise to pay.

OBJECTIVE 2

Explain the need for export financing.

U.S. manufacturers (the "seller") might require pre-shipment and/or post-shipment financing for their export sales for different reasons. The manufacturer might require working capital before any actual export sales, in order to produce and/or prepare the goods or services for export. In addition, U.S. commercial banks usually prefer to offer floating rate loans. Floating rate loans help the bank to cover its risk of cost increases before the export loan is repaid. However, many foreign buyers do not want to accept changing interest rate risks as well as foreign exchange risks. Therefore some financing programs can allow U.S. banks to offer a fixed-rate loan instead. The manufacturer might also need export financing in order to offer competitive credit terms to the foreign buyer, to provide needed funds equal to the export sale while the sale is outstanding, or to support promotion, selling, shipping, and other activities.

OBJECTIVE 3

Explain major considerations affecting export financing decisions.

Costs of financing—The manufacturer's total financing costs vary with the method chosen, interest rates, and any fees. Financing costs also affect the manufacturer's price and profit.

Length of financing—The financing costs increase with the length of the financing terms. Different methods of financing cover different lengths of time.

Risks—Different methods of financing may reduce the financial risks to the manufacturer.

Financial resources of the exporter—The manufacturer may have the financial resources to produce the export goods, extend credit to the buyer, support export sales activities, or establish a commercial line of credit.

OBJECTIVE 4

Distinguish between costs associated with commercial loans and bankers acceptance financing.

COMMERCIAL LOAN

$ Interest expenses

$ Company assets tied-up as collateral

$ Exhaustion of short-term credit lines

BANKERS ACCEPTANCE

$ Discounted value of the draft, if presented for payment before maturity

$ Acceptance commission

OBJECTIVE 5 **Identify sources of pre-shipment financing.**

GOVERNMENT SECTOR OPTIONS

Eximbank options

- Working Capital Guarantee Program—Guarantees repayment of 90% of the principal on loans from commercial lenders for needed working capital before actual export sales

- Commercial Bank Guarantees—Guarantees against nonpayment by foreign buyers on medium-term export loans by U.S. commercial banks, including 100% of political risk and up to 90% of commercial risk

- Small Business Credit Program—Allows U.S. commercial banks to offer medium-term fixed rate export loans to U.S. small businesses, with interest rates fixed at the lowest allowable rates under the export credit guidelines of the Organization for Economic Cooperation and Development (OECD)

  NOTE: The company must meet the definition of a "small business" as defined by the Small Business Administration.

SBA options

- Export Revolving Line of Credit (ERLC)—Provides a limited line of credit allowing unlimited withdrawals and repayments (as long as the manufacturer does not exceed the credit limit and acts within the stated maturity period); provides funds (1) to finance labor and materials for manufacturing, (2) to buy inventory to meet an export order, and (3) to penetrate or develop foreign markets

  NOTE: ERLC funds cannot be used to pay existing obligations or to buy fixed assets.

- Business loan guarantees and direct loans—Provide funds to pay existing obligations; finance purchases of fixed assets

PRIVATE SECTOR OPTIONS—Commercial bank loans

OBJECTIVE 6

Identify sources of post-shipment financing.

GOVERNMENT SECTOR OPTIONS

Eximbank options—Buyer financing programs (different direct loans and guarantees)

FCIA options—Export Credit Insurance—Covers 100% of losses for political reasons and up to 95% of commercial losses, through the FCIA

PRIVATE SECTOR OPTIONS

PEFCO

- Provides medium- and long-term fixed interest rate loans to foreign borrowers for buying U.S. goods and services
- Can offer funds to supplement the financing available through commercial banks or Eximbank

Commercial banks

- Bankers acceptance financing
- Accounts receivable borrowing base

QUICK CHECK

FINANCING

12

Name ______________________________ Score __________

OBJECTIVE 1

Match terms associated with financing export sales with their correct definitions. Write the correct letter in each blank.

____ 1. A public corporation that helps finance U.S. exports through loans and loan guarantees (and insurance options through FCIA)

____ 2. A private corporation owned by investors, mostly commercial banks, that provides medium-term and long-term loans to foreign borrowers for buying U.S. goods and services

____ 3. A formal demand for future payment sent to the buyer's bank with required shipping documents, after the goods are shipped. The buyer's bank releases the shipping documents allowing the buyer to take possession of the goods, only after the buyer signs a time draft (the buyer's "acceptance"), promising to pay within a certain time period

____ 4. A quasi-public insurance association that provides for commercial and political risk insurance in partnership with the Eximbank

____ 5. A negotiable credit or time draft, with or without a letter of credit, accepted for payment by a bank and (1) payable upon maturity or (2) sold to a U.S. bank for immediate payment

____ 6. A U.S. Government-owned corporation that offers specialized financing services, political risk insurance and other insurance options

____ 7. A loan to finance export sales until payment is received, including loans for working capital and for revolving lines of credit

a. Bankers acceptance

b. Commercial loan

c. Export-Import Bank of the United States (Eximbank)

d. Foreign Credit Insurance Association (FCIA)

e. Overseas Private Investment Corporation (OPIC)

f. Private Export Funding Corporation (PEFCO)

g. Trade acceptance

OBJECTIVE 2

Explain the need for export financing. Include as many main points as possible.

OBJECTIVE 3

Explain major considerations affecting export financing decisions. Choose three (3) considerations and briefly explain each.

1.

2.

3.

OBJECTIVE 4

Distinguish between costs associated with commercial loans and bankers acceptance financing. In the space provided, write the letters of all costs that apply.

a. Exhaustion of short-term credit lines

b. Company assets tied-up as collateral

c. Acceptance commission

d. Interest expenses

e. Discounted value of the draft, if presented for payment before maturity

1. Commercial loan—____________________________________
2. Bankers acceptance—__________________________________

OBJECTIVE 5

Identify sources of pre-shipment financing. Write an "X" in the blank beside each source of pre-shipment financing.

____ 1. Bankers acceptance financing

____ 2. Working Capital Guarantee Program

____ 3. Commercial Bank Guarantees

____ 4. Small Business Credit Program

____ 5. Export Revolving Line of Credit (ERLC)

____ 6. Export Credit Insurance

____ 7. Accounts receivable borrowing base

____ 8. Business loan guarantees and direct loans

____ 9. Commercial bank loans

OBJECTIVE 6

Identify sources of post-shipment financing. Write an "X" in the blank beside each source of post-shipment financing.

____ 1. Export Credit Insurance

____ 2. Export Revolving Line of Credit (ERLC)

____ 3. Provides medium- and long-term fixed interest rate loans to foreign borrowers for buying U.S. goods and services

____ 4. Can offer funds to supplement the financing available through commercial banks or Eximbank

____ 5. Bankers acceptance financing

____ 6. Working Capital Guarantee Program

____ 7. Accounts receivable borrowing base

QUICK CHECK ANSWERS

FINANCING 12

OBJECTIVE 1

1. c
2. f
3. g
4. d
5. a
6. e
7. b

OBJECTIVE 2

U.S. manufacturers (the "seller") might require financing for their export sales for different reasons. The manufacturer might require working capital before any actual export sales, in order to produce and/or prepare the goods or services for export. Export financing can also help to cover losses for political reasons, such as war, or commercial losses, such as nonpayment by the foreign buyer. In addition, U.S. commercial banks usually prefer to offer floating rate loans. Floating rate loans help the bank to cover its risk of cost increases before the export loan is repaid. However, many foreign buyers do not want to accept changing interest rate risks as well as foreign exchange risks. Therefore some financing options can allow U.S. banks to offer a fixed-rate loan instead. The manufacturer might also need export financing in order to offer competitive credit terms to the foreign buyer, to provide needed funds equal to the export sale while the sale is outstanding, or to support promotion, selling, shipping, and other activities.

OBJECTIVE 3

Any three of the following:

Costs of financing—The manufacturer's total financing costs vary with the method chosen, interest rates, and any fees. Financing costs also affect the manufacturer's price and profit.

Length of financing—The financing costs increase with the length of the financing terms. Different methods of financing cover different lengths of time.

Risks—Different methods of financing may reduce the financial risks to the manufacturer.

Financial resources of the exporter—The manufacturer may have the financial resources to produce the export goods, extend credit to the buyer, support export sales activities, or establish a commercial line of credit.

OBJECTIVE 4	1. Commercial loan—a, b, d 2. Bankers acceptance—c, e
OBJECTIVE 5	2, 3, 4, 5, 8, 9
OBJECTIVE 6	1, 3, 4, 5, 7

PAYMENT AND COLLECTION

13

INTRODUCTION

You have many options for receiving payment for your goods or services. Each method of payment involves risks and benefits to you and to the foreign buyer. Some factors affecting your choice of a payment method include the buyer's ability to pay (credit-worthiness) and other types of risks involved with the particular export sale. The nature and success of your business relationship with a foreign buyer can also influence the payment terms that you offer. When beginning a new export relationship, you might offer payment terms that provide you with the most security. After establishing a successful working relationship, you might decide to modify your payment terms. You should always get qualified advice from international banking specialists before agreeing to terms of payment.

A commercial letter of credit (L/C) is one of the most secure and most common methods of payment. Letters of credit involve banks as neutral third parties facilitating the transaction between the seller and the buyer. Banks handle documents, not goods. Because the bank does not see the export goods, it must verify compliance with the agreed-upon terms of payment by examining the documents required under the terms of the L/C. By examining the required documents, the bank can assure itself that the seller and the buyer in the export sale have complied with the L/C.

UNIT OBJECTIVE

After completing this unit, you will be familiar with different methods of payment. You will also be able to interpret a simple commercial letter of credit (L/C). Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you will be able to

1. Match terms associated with methods of payment and collection with their correct definitions.
2. Rank in order from most secure (for the exporter) to least secure the basic methods of payment.
3. Identify in order the steps in an export sales transaction using a commercial letter of credit (basic).
4. Identify in order the steps in an export sales transaction using a standby letter of credit.
5. Identify in order the steps in an export sales transaction using a sight draft.

6. Identify in order the steps in an export sales transaction using a time draft.
7. Identify in order the steps in an export sales transaction using open account.
8. Identify in order the steps in an export sales transaction using cash in advance.
9. Identify in order the steps in an export sales transaction using consignment sales.
10. Outline a policy for meeting conditions of payment in letters of credit.
11. List ways to prevent common collection problems.
12. Interpret documents in a basic letter of credit transaction. (Assignment 1)

SUGGESTED ACTIVITIES

PAYMENT AND COLLECTION 13

PREPARATION

- Order additional materials to supplement this unit.

  Publications

  - *A Basic Guide to Exporting* (Current edition). Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; through Government Bookstores; or contact Department of Commerce district offices.

  Media

  - *Documents of International Trade*. Color, 20 minutes, St. Louis Community College at Forest Park. Features the credit and collections process, the shipping process (routing, storing, insuring, and delivering), and the customs process to ensure compliance with government regulations. Available from International Business Video Resources, St. Louis Community College, 5600 Oakland Avenue, St. Louis, MO 63110.

  - *Credit and Collections in International Business*. Color, 20 minutes, St. Louis Community College at Forest Park. Focuses on the irrevocable letter of credit as the principal document of international transactions. Emphasizes the need for accuracy in all documents and suggests ways to avoid common pitfalls and discrepancies in documents. Also presents other methods of payment. Available from International Business Video Resources, St. Louis Community College, 5600 Oakland Avenue, St. Louis, MO 63110.

- Review the unit and plan your presentation:

  - Estimate the amount of material that can be covered in each class session.

  - Plan for appropriate Assignments.

  - Identify objectives that you can supplement with other resources.

  - Invite guest speakers in advance.

    EXAMPLE: Area exporters, international banking specialists

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities in addition to the Assignment.

DELIVERY

Objective 1

- Emphasize the value of learning the "language of exporting," including terms and definitions.

- Illustrate a countertrade transaction.

- Distinguish between a commercial L/C and a standby L/C.

- State that commercial banks charge reasonable fees for handling letter of credit transactions (relative to the value of the transaction). These fees can include advising fees, negotiation commissions, confirmation fees, collection charges, postage/courier/cable expenses, and others.

Objective 2

- Discuss the logic of the ranking.

Objectives 3-9

- Trace the flow of the transaction as you describe each method of payment and collection. Refer to Supplement 1 for letter of credit transactions.

  NOTE: Some of the documents required under a letter of credit are defined in Unit 14.

- Invite an international banking specialist to discuss the role of commercial banks and computers in international trade, especially payment and collection.

- Introduce Assignment 1.

Objectives 10-11

- Describe common collection problems and suggest possible solutions. Invite an international banking specialist to explain guidelines for preparing documents required under the terms of a letter of credit.

- Refer to Supplement 2.

APPLICATION

Objective 12

- Complete the Assignment as an in-class or take-home activity after discussing the related objectives.
- Review the related objectives before completing the Assignment, if needed.
- Create additional Assignments, as needed, to reinforce the objectives and/or to meet the needs of participants.

EVALUATION

- Give the Quick Check soon after presenting the unit and after completing the Assignment.
- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- *A Basic Guide to Exporting*, U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service. September 1986.
- "Fundamentals of Exporting" and "Shipping and Documentation" workshops, offered by Oklahoma International Export Services (OIES), a joint program of the Oklahoma Department of Commerce and the U.S. and Foreign Commercial Service of the U.S. Department of Commerce.
- *Exporter's Guide to the Preparation of Documents Under Letters of Credit*, Bank of Oklahoma, Tulsa, Oklahoma.

SPECIFIC OBJECTIVES

PAYMENT AND COLLECTION 13

OBJECTIVE 1

Match terms associated with methods of payment and collection with their correct definitions.

Acceptance—(1) A time draft that the drawee has accepted and must pay at maturity; (2) the drawee's act in receiving a draft and thereby becoming obligated to pay its value at maturity; and (3) any agreement to purchase goods under specified terms (in a broad sense)

Account party—The party that opens a letter of credit; also referred to as the buyer, importer, accountee or applicant

Advising bank—A U.S. bank that handles letters of credit for a foreign bank by notifying the seller that credit has been opened in the seller's favor under specified conditions of the letter of credit; the bank authenticates the genuineness of the credit

Amendment—A change made to one or more terms of the original letter of credit

Barter—Receiving payment for export goods in the form of goods and/or services from the buyer

NOTE: This method of payment may be common in foreign markets where the amount of foreign exchange available for payment is limited.

Beneficiary—The person in whose favor a letter of credit is issued or a draft is drawn; also referred to as the seller, exporter, drawer or shipper

Cash in advance—Shipping the goods to the buyer after the buyer has made payment

Clean draft—A draft to which no documents have been attached

Collection papers—All documents submitted to a buyer in order to receive payment for a shipment

NOTE: See Unit 14 for definitions of common export documents.

Confirmed irrevocable L/C—A U.S. bank promises to pay the seller even if the issuing bank defaults

NOTE: See Figure 13-1.

Confirming bank—A U.S. bank that promises to honor the drafts and documents presented by the seller even if the issuing bank defaults

Consignment sales—The seller ("consignor") ships the goods to a foreign distributor or other agent ("consignee"), who sells the goods on behalf of the seller and makes payment after the sale; the seller retains title to the goods until they are sold by the consignee

Countertrade—A method of payment in which the seller receives payment in whole or in part in the form of goods or services transferred from the foreign country

EXAMPLE: You may be paid in currency on the condition that you also agree to find markets for certain goods from the buyer's country.

Date draft—Similar to a time draft, but stating a due date for the buyer's payment instead of allowing a time period after the buyer's acceptance

Discrepancy—When the documents presented under a letter of credit do not conform to the terms of the letter of credit, often resulting when required information is missing or varies from the stated text of the letter

EXAMPLE: A discrepancy can occur when the **exact** language of the letter of credit is not carried over to supporting documents.

Draft—An unconditional order in writing from the drawer to the drawee that directs the drawee to pay a specified amount to a named drawer at a fixed or determinable future date; also called a "bill of exchange;" in letter of credit transactions, it is the formal, legal demand for payment

Irrevocable L/C—The issuing bank promises to pay the seller even if the buyer defaults

NOTE: See Figures 13-2 and 13-3.

Issuing bank—The bank that opens a letter of credit for the buyer; also called the opening bank

Letter of credit (commercial)—A payment guarantee from the buyer allowing the seller to receive payment after the seller has presented specified documents that comply with stated terms and conditions in the credit; the issuing bank substitutes its credit for the buyer's credit; also called an L/C

Open account—Shipping the goods to the buyer, without a letter of credit or a documentary collection arrangement; the seller invoices the buyer for the shipment and relies upon the buyer to pay

Presentation—When collection papers are submitted, often to a bank under the terms of an L/C, allowing the seller to receive payment for a shipment

Remitting bank—A bank that sends a draft to a foreign bank for collection

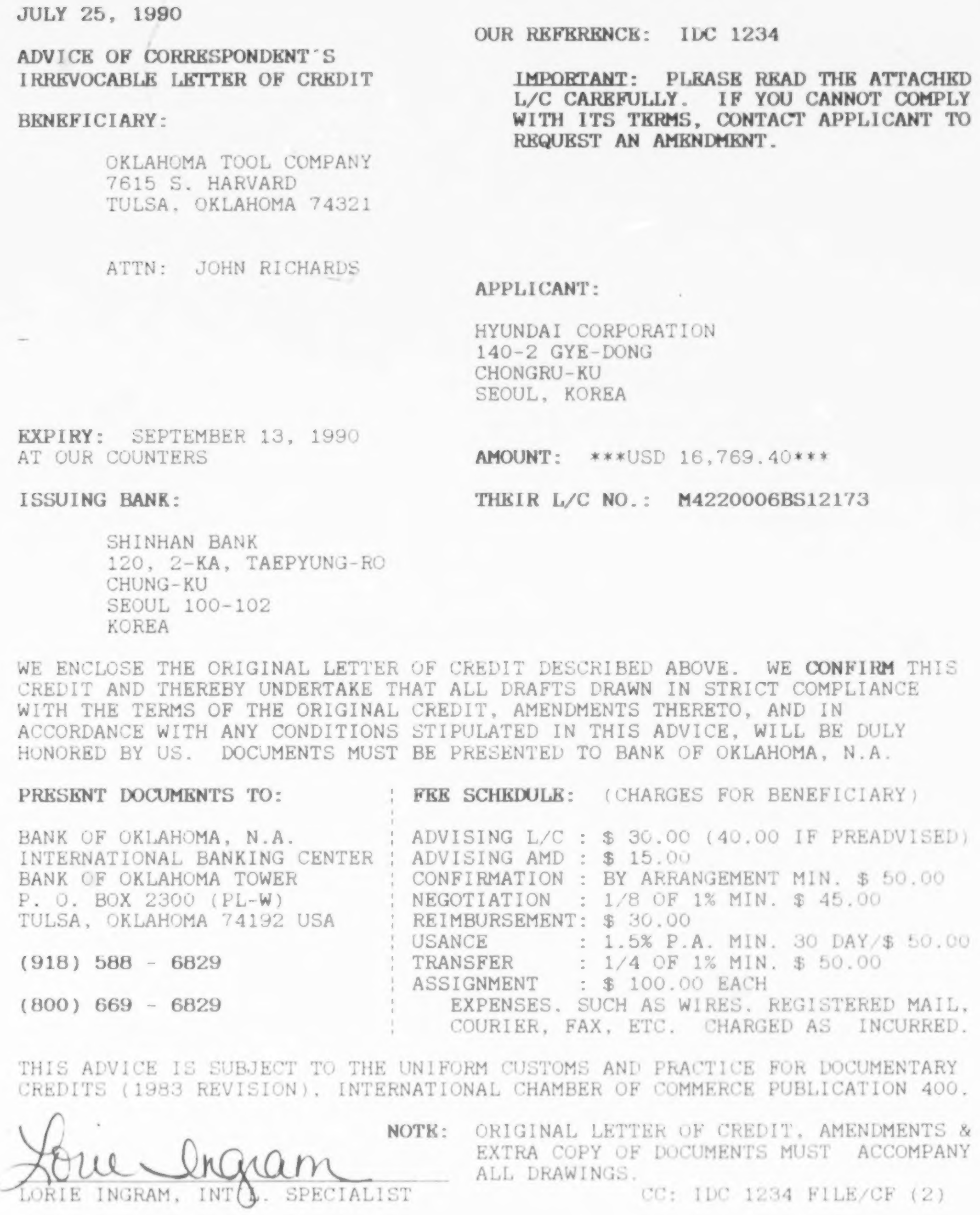
Revocable L/C—A letter of credit that can be amended or cancelled by the buyer or the issuing bank at any time, without the seller's approval (providing no protection to the seller)

Sight draft—A formal demand for payment sent to the buyer's bank, with required shipping documents, after the seller ships the goods; the buyer's bank releases the shipping documents allowing the buyer to take possession of the goods, only after the buyer makes payment; also called Cash Against Documents (CAD or C/D) or Documents Against Payment (DAP or D/P)

Standby L/C—A letter of credit that functions as a "security device" to protect a third party from loss when the seller fails to perform certain obligations; at the request of the seller, the issuing bank gives the buyer the right to draw funds by presenting certain documents according to the terms and conditions set forth in the credit; the documents required might simply be the buyer's statement that the seller has defaulted

NOTE: The standby L/C has the same features as other letters of credit, but serves a different function. A commercial L/C allows the seller to receive payment after complying with stated terms and conditions. A standby L/C acts as a kind of "performance guarantee," allowing the buyer to be reimbursed should the seller default on an obligation.

Time draft—A formal demand for future payment sent to the buyer's bank, with required shipping documents, after the seller ships the goods; the buyer's bank releases the shipping documents allowing the buyer to take possession of the goods, only after the buyer's acceptance, i.e. the buyer's written promise to pay the draft at maturity; also called Documents Against Acceptance (D/A)



JULY 25, 1990

OUR REFERENCE: IDC 1234

ADVICE OF CORRESPONDENT'S IRREVOCABLE LETTER OF CREDIT

IMPORTANT: PLEASE READ THE ATTACHED L/C CAREFULLY. IF YOU CANNOT COMPLY WITH ITS TERMS, CONTACT APPLICANT TO REQUEST AN AMENDMENT.

BENEFICIARY:

OKLAHOMA TOOL COMPANY
7615 S. HARVARD
TULSA, OKLAHOMA 74321

ATTN: JOHN RICHARDS

APPLICANT:

HYUNDAI CORPORATION
140-2 GYE-DONG
CHONGRU-KU
SEOUL, KOREA

EXPIRY: SEPTEMBER 13, 1990
AT OUR COUNTERS

AMOUNT: ***USD 16,769.40***

ISSUING BANK:

THEIR L/C NO.: **M4220006BS12173**

SHINHAN BANK
120, 2-KA, TAEPYUNG-RO
CHUNG-KU
SEOUL 100-102
KOREA

WE ENCLOSE THE ORIGINAL LETTER OF CREDIT DESCRIBED ABOVE. WE **CONFIRM** THIS CREDIT AND THEREBY UNDERTAKE THAT ALL DRAFTS DRAWN IN STRICT COMPLIANCE WITH THE TERMS OF THE ORIGINAL CREDIT, AMENDMENTS THERETO, AND IN ACCORDANCE WITH ANY CONDITIONS STIPULATED IN THIS ADVICE, WILL BE DULY HONORED BY US. DOCUMENTS MUST BE PRESENTED TO BANK OF OKLAHOMA, N.A.

PRESENT DOCUMENTS TO:

BANK OF OKLAHOMA, N.A.
INTERNATIONAL BANKING CENTER
BANK OF OKLAHOMA TOWER
P. O. BOX 2300 (PL-W)
TULSA, OKLAHOMA 74192 USA

(918) 588 - 6829

(800) 669 - 6829

FEE SCHEDULE: (CHARGES FOR BENEFICIARY)

ADVISING L/C	$ 30.00 (40.00 IF PREADVISED)
ADVISING AMD	$ 15.00
CONFIRMATION	BY ARRANGEMENT MIN. $ 50.00
NEGOTIATION	1/8 OF 1% MIN. $ 45.00
REIMBURSEMENT	$ 30.00
USANCE	1.5% P.A. MIN. 30 DAY/$ 50.00
TRANSFER	1/4 OF 1% MIN. $ 50.00
ASSIGNMENT	$ 100.00 EACH

EXPENSES, SUCH AS WIRES, REGISTERED MAIL, COURIER, FAX, ETC. CHARGED AS INCURRED.

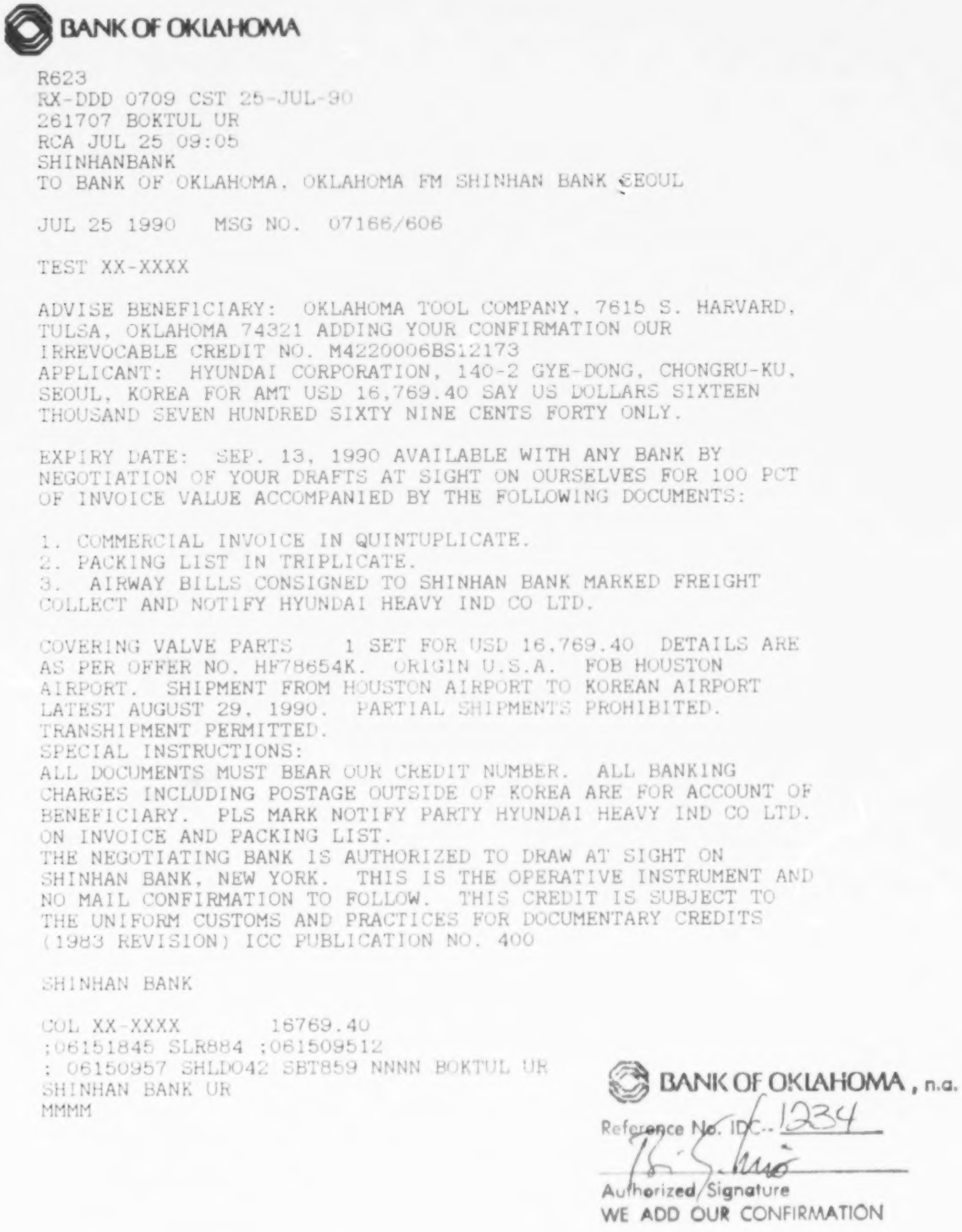
THIS ADVICE IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1983 REVISION), INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION 400.

Lorie Ingram
LORIE INGRAM, INTL. SPECIALIST

NOTE: ORIGINAL LETTER OF CREDIT, AMENDMENTS & EXTRA COPY OF DOCUMENTS MUST ACCOMPANY ALL DRAWINGS.

CC: IDC 1234 FILE/CF (2)

FIGURE 13-1. Example of a confirmed irrevocable letter of credit. (Courtesy of Bank of Oklahoma, Tulsa, Oklahoma.)



BANK OF OKLAHOMA

R623
RX-DDD 0709 CST 25-JUL-90
261707 BOKTUL UR
RCA JUL 25 09:05
SHINHANBANK
TO BANK OF OKLAHOMA, OKLAHOMA FM SHINHAN BANK SEOUL

JUL 25 1990 MSG NO. 07166/606

TEST XX-XXXX

ADVISE BENEFICIARY: OKLAHOMA TOOL COMPANY, 7615 S. HARVARD,
TULSA, OKLAHOMA 74321 ADDING YOUR CONFIRMATION OUR
IRREVOCABLE CREDIT NO. M4220006BS12173
APPLICANT: HYUNDAI CORPORATION, 140-2 GYE-DONG, CHONGRU-KU,
SEOUL, KOREA FOR AMT USD 16,769.40 SAY US DOLLARS SIXTEEN
THOUSAND SEVEN HUNDRED SIXTY NINE CENTS FORTY ONLY.

EXPIRY DATE: SEP. 13, 1990 AVAILABLE WITH ANY BANK BY
NEGOTIATION OF YOUR DRAFTS AT SIGHT ON OURSELVES FOR 100 PCT
OF INVOICE VALUE ACCOMPANIED BY THE FOLLOWING DOCUMENTS:

1. COMMERCIAL INVOICE IN QUINTUPLICATE.
2. PACKING LIST IN TRIPLICATE.
3. AIRWAY BILLS CONSIGNED TO SHINHAN BANK MARKED FREIGHT
COLLECT AND NOTIFY HYUNDAI HEAVY IND CO LTD.

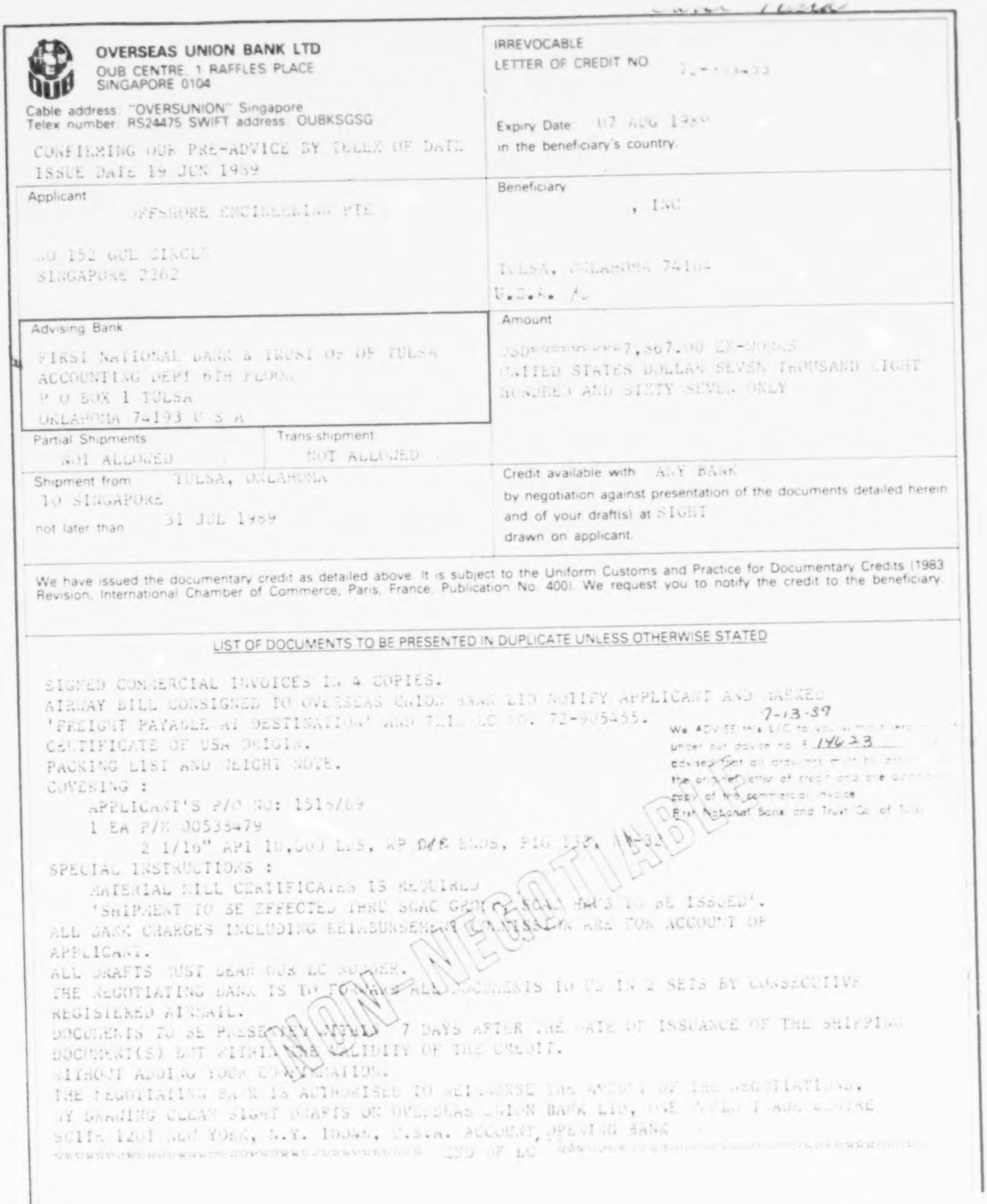
COVERING VALVE PARTS 1 SET FOR USD 16,769.40 DETAILS ARE
AS PER OFFER NO. HF78654K. ORIGIN U.S.A. FOB HOUSTON
AIRPORT. SHIPMENT FROM HOUSTON AIRPORT TO KOREAN AIRPORT
LATEST AUGUST 29, 1990. PARTIAL SHIPMENTS PROHIBITED.
TRANSHIPMENT PERMITTED.
SPECIAL INSTRUCTIONS:
ALL DOCUMENTS MUST BEAR OUR CREDIT NUMBER. ALL BANKING
CHARGES INCLUDING POSTAGE OUTSIDE OF KOREA ARE FOR ACCOUNT OF
BENEFICIARY. PLS MARK NOTIFY PARTY HYUNDAI HEAVY IND CO LTD.
ON INVOICE AND PACKING LIST.
THE NEGOTIATING BANK IS AUTHORIZED TO DRAW AT SIGHT ON
SHINHAN BANK, NEW YORK. THIS IS THE OPERATIVE INSTRUMENT AND
NO MAIL CONFIRMATION TO FOLLOW. THIS CREDIT IS SUBJECT TO
THE UNIFORM CUSTOMS AND PRACTICES FOR DOCUMENTARY CREDITS
(1983 REVISION) ICC PUBLICATION NO. 400

SHINHAN BANK

COL XX-XXXX 16769.40
;06151845 SLR884 ;061509512
: 06150957 SHLD042 SBT859 NNNN BOKTUL UR
SHINHAN BANK UR
MMMM

BANK OF OKLAHOMA, n.a.
Reference No. IDC-- 1234
Authorized Signature
WE ADD OUR CONFIRMATION

FIGURE 13-1. Example of a confirmed irrevocable letter of credit (continued).



OVERSEAS UNION BANK LTD
OUB CENTRE, 1 RAFFLES PLACE
SINGAPORE 0104

Cable address: "OVERSUNION" Singapore
Telex number: RS24475 SWIFT address: OUBKSGSG

CONFIRMING OUR PRE-ADVICE BY TELEX OF DATE
ISSUE DATE 19 JUN 1989

IRREVOCABLE
LETTER OF CREDIT NO. 72-905455

Expiry Date: 07 AUG 1989
in the beneficiary's country.

Applicant
OFFSHORE ENGINEERING PTE
NO 152 GUL CIRCLE
SINGAPORE 2262

Beneficiary
, INC
TULSA, OKLAHOMA 74104
U.S.A. /L

Advising Bank
FIRST NATIONAL BANK & TRUST OF OF TULSA
ACCOUNTING DEPT 6TH FLOOR
P O BOX 1 TULSA
OKLAHOMA 74193 U S A

Amount
USD*********7,867.00 EX-WORKS
UNITED STATES DOLLAR SEVEN THOUSAND EIGHT
HUNDRED AND SIXTY SEVEN ONLY

Partial Shipments: NOT ALLOWED

Trans-shipment: NOT ALLOWED

Shipment from TULSA, OKLAHOMA
TO SINGAPORE
not later than 31 JUL 1989

Credit available with ANY BANK
by negotiation against presentation of the documents detailed herein
and of your draft(s) at SIGHT
drawn on applicant.

We have issued the documentary credit as detailed above. It is subject to the Uniform Customs and Practice for Documentary Credits (1983 Revision, International Chamber of Commerce, Paris, France, Publication No. 400). We request you to notify the credit to the beneficiary.

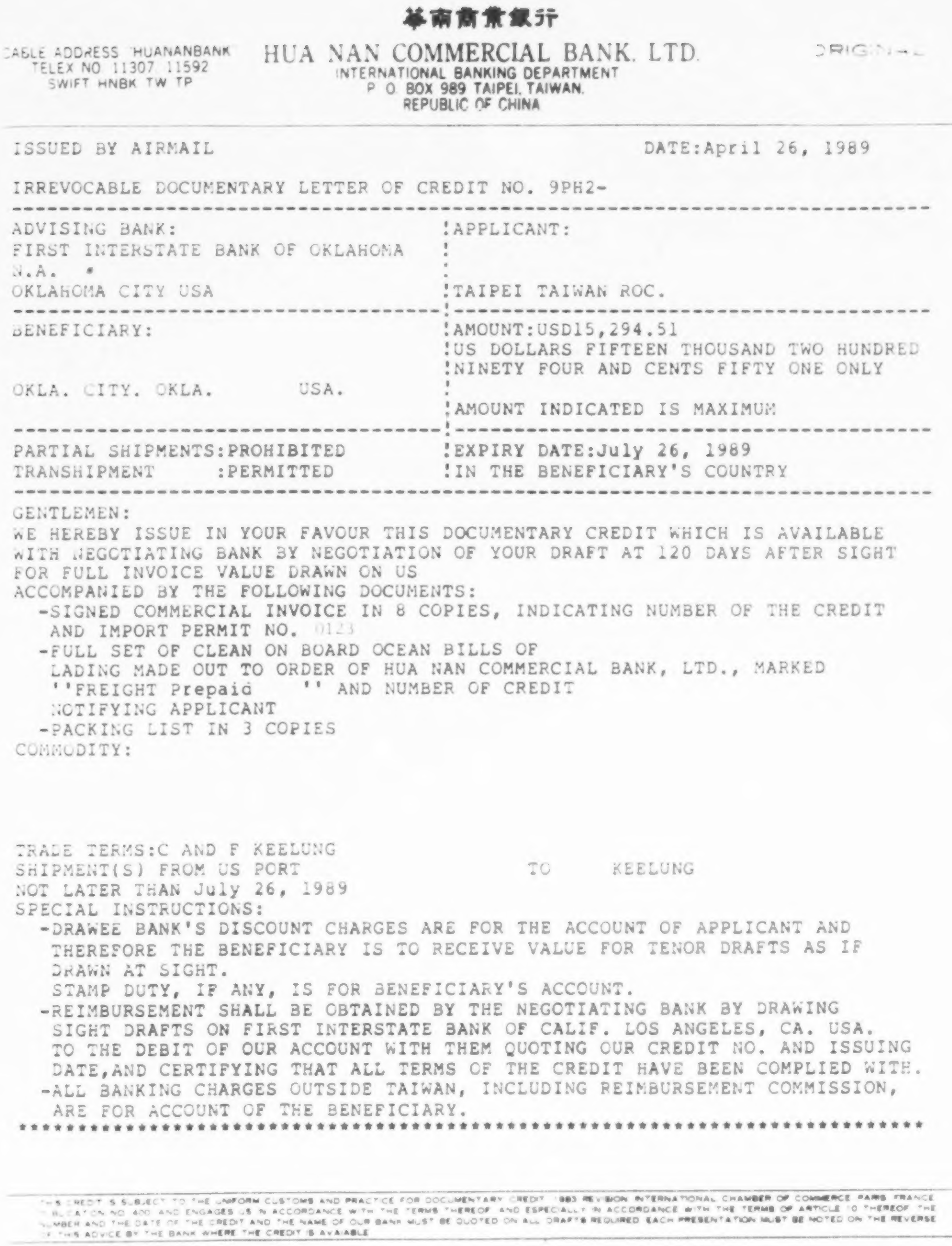
LIST OF DOCUMENTS TO BE PRESENTED IN DUPLICATE UNLESS OTHERWISE STATED

SIGNED COMMERCIAL INVOICES IN 4 COPIES.
AIRWAY BILL CONSIGNED TO OVERSEAS UNION BANK LTD NOTIFY APPLICANT AND MARKED
'FREIGHT PAYABLE AT DESTINATION' AND THIS LC NO. 72-905455.
CERTIFICATE OF USA ORIGIN.
PACKING LIST AND WEIGHT NOTE.
COVERING :
APPLICANT'S P/O NO: 1515/89
1 EA P/N 00538479
2 1/16" API 10,000 LBS, WP ~~B/E~~ ENDS, FIG 132, AA-32
SPECIAL INSTRUCTIONS :
MATERIAL MILL CERTIFICATES IS REQUIRED
'SHIPMENT TO BE EFFECTED THRU SGAC GROUP, SGAC AWB TO BE ISSUED'.
ALL BANK CHARGES INCLUDING REIMBURSEMENT COMMISSION ARE FOR ACCOUNT OF
APPLICANT.
ALL DRAFTS MUST BEAR OUR LC NUMBER.
THE NEGOTIATING BANK IS TO FORWARD ALL DOCUMENTS TO US IN 2 SETS BY CONSECUTIVE
REGISTERED AIRMAIL.
DOCUMENTS TO BE PRESENTED WITHIN 7 DAYS AFTER THE DATE OF ISSUANCE OF THE SHIPPING
DOCUMENT(S) BUT WITHIN THE VALIDITY OF THE CREDIT.
WITHOUT ADDING YOUR CONFIRMATION.
THE NEGOTIATING BANK IS AUTHORISED TO REIMBURSE THE AMOUNT OF THE NEGOTIATIONS,
BY DRAWING CLEAN SIGHT DRAFTS ON OVERSEAS UNION BANK LTD, ONE WORLD TRADE CENTRE
SUITE 1201 NEW YORK, N.Y. 10048, U.S.A. ACCOUNT OPENING BANK
************************************** END OF LC **

7-13-89
We ADVISE this L/C to you without engagement
under our advice no. E 14623
advised that all drawings must be accompanied by
the original letter of credit and one additional
copy of the commercial invoice.
First National Bank and Trust Co. of Tulsa

NON-NEGOTIABLE

FIGURE 13-2. Example of an irrevocable letter of credit. (Courtesy of The First National Bank and Trust Company of Tulsa, Tulsa, Oklahoma.)



華南商業銀行

CABLE ADDRESS "HUANANBANK"
TELEX NO. 11307 11592
SWIFT HNBK TW TP

HUA NAN COMMERCIAL BANK, LTD.
INTERNATIONAL BANKING DEPARTMENT
P. O. BOX 989 TAIPEI, TAIWAN,
REPUBLIC OF CHINA

ORIGINAL

ISSUED BY AIRMAIL DATE:April 26, 1989

IRREVOCABLE DOCUMENTARY LETTER OF CREDIT NO. 9PH2-

ADVISING BANK: FIRST INTERSTATE BANK OF OKLAHOMA N.A. * OKLAHOMA CITY USA	APPLICANT: TAIPEI TAIWAN ROC.
BENEFICIARY: OKLA. CITY. OKLA. USA.	AMOUNT:USD15,294.51 US DOLLARS FIFTEEN THOUSAND TWO HUNDRED NINETY FOUR AND CENTS FIFTY ONE ONLY AMOUNT INDICATED IS MAXIMUM
PARTIAL SHIPMENTS:PROHIBITED TRANSHIPMENT :PERMITTED	EXPIRY DATE:July 26, 1989 IN THE BENEFICIARY'S COUNTRY

GENTLEMEN:
WE HEREBY ISSUE IN YOUR FAVOUR THIS DOCUMENTARY CREDIT WHICH IS AVAILABLE WITH NEGOTIATING BANK BY NEGOTIATION OF YOUR DRAFT AT 120 DAYS AFTER SIGHT FOR FULL INVOICE VALUE DRAWN ON US
ACCOMPANIED BY THE FOLLOWING DOCUMENTS:
- SIGNED COMMERCIAL INVOICE IN 8 COPIES, INDICATING NUMBER OF THE CREDIT AND IMPORT PERMIT NO. 0123
- FULL SET OF CLEAN ON BOARD OCEAN BILLS OF LADING MADE OUT TO ORDER OF HUA NAN COMMERCIAL BANK, LTD., MARKED ''FREIGHT Prepaid '' AND NUMBER OF CREDIT NOTIFYING APPLICANT
- PACKING LIST IN 3 COPIES

COMMODITY:

TRADE TERMS:C AND F KEELUNG
SHIPMENT(S) FROM US PORT TO KEELUNG
NOT LATER THAN July 26, 1989
SPECIAL INSTRUCTIONS:
- DRAWEE BANK'S DISCOUNT CHARGES ARE FOR THE ACCOUNT OF APPLICANT AND THEREFORE THE BENEFICIARY IS TO RECEIVE VALUE FOR TENOR DRAFTS AS IF DRAWN AT SIGHT.
  STAMP DUTY, IF ANY, IS FOR BENEFICIARY'S ACCOUNT.
- REIMBURSEMENT SHALL BE OBTAINED BY THE NEGOTIATING BANK BY DRAWING SIGHT DRAFTS ON FIRST INTERSTATE BANK OF CALIF. LOS ANGELES, CA. USA. TO THE DEBIT OF OUR ACCOUNT WITH THEM QUOTING OUR CREDIT NO. AND ISSUING DATE,AND CERTIFYING THAT ALL TERMS OF THE CREDIT HAVE BEEN COMPLIED WITH.
- ALL BANKING CHARGES OUTSIDE TAIWAN, INCLUDING REIMBURSEMENT COMMISSION, ARE FOR ACCOUNT OF THE BENEFICIARY.

****

THIS CREDIT IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDIT (1983 REVISION) INTERNATIONAL CHAMBER OF COMMERCE PARIS FRANCE PUBLICATION NO. 400 AND ENGAGES US IN ACCORDANCE WITH THE TERMS THEREOF AND ESPECIALLY IN ACCORDANCE WITH THE TERMS OF ARTICLE 10 THEREOF. THE NUMBER AND THE DATE OF THE CREDIT AND THE NAME OF OUR BANK MUST BE QUOTED ON ALL DRAFTS REQUIRED. EACH PRESENTATION MUST BE NOTED ON THE REVERSE OF THIS ADVICE BY THE BANK WHERE THE CREDIT IS AVAILABLE.

FIGURE 13-3. Example of an irrevocable letter of credit. (Courtesy of First Interstate Bank of Oklahoma, N.A., Oklahoma City, Oklahoma.)

Unconfirmed irrevocable L/C—The issuing bank assumes the sole responsibility for paying the seller.

OBJECTIVE 2

Rank in order from most secure (for the exporter) to least secure the basic methods of payment.

1. Cash in advance
2. Letter of credit
3. Documentary collections (sight draft or time draft)
4. Open account
5. Consignment sales

OBJECTIVE 3

Identify in order the steps in an export sales transaction using a commercial letter of credit (basic).

1. Buyer obtains L/C from buyer's bank.
2. Using buyer's terms, buyer's bank (issuing bank) prepares L/C.

   NOTE: The seller can request that certain details appear in the L/C by preparing and submitting to the buyer an "instruction sheet" for preparing the letter of credit. These instructions are commercially-available or can be created by the seller.

3. Issuing bank transmits completed L/C to seller's bank (advising or confirming bank).
4. Seller presents documents required under the L/C to seller's bank.
5. Seller's bank verifies documents against L/C terms.
6. Issuing bank transmits payment to seller through seller's bank.

OBJECTIVE 4

Identify in order the steps in an export sales transaction using a standby letter of credit.

1. Seller obtains L/C from seller's bank.
2. If seller fails to perform, buyer presents draft with demand for payment.

   NOTE: The terms of the standby L/C might require the buyer to present certain documents for payment, such as a certification of the seller's default on an obligation.

3. Issuing bank pays buyer.

OBJECTIVE 5

Identify in order the steps in an export sales transaction using a sight draft.

1. Seller ships goods to buyer.
2. Seller submits formal demand for payment to buyer's bank with required shipping documents.
3. Buyer pays seller through buyer's bank.
4. Buyer's bank releases shipping documents to buyer.
5. Buyer takes possession of goods.

OBJECTIVE 6

Identify in order the steps in an export sales transaction using a time draft.

1. Seller ships goods to buyer.
2. Seller submits formal demand for future payment to buyer's bank with required shipping documents.
3. Buyer promises in writing to pay draft at maturity ("buyer's acceptance").
4. Buyer's bank releases shipping documents to buyer.
5. Buyer takes possession of goods.
6. Buyer's bank transmits payment to seller at draft's maturity.

OBJECTIVE 7

Identify in order the steps in an export sales transaction using open account.

1. Seller ships goods to buyer.
2. Seller invoices buyer for shipment.
3. Buyer pays seller.

OBJECTIVE 8

Identify in order the steps in an export sales transaction using cash in advance.

1. Buyer pays seller.
2. Seller ships goods to buyer.

OBJECTIVE 9

Identify in order the steps in an export sales transaction using consignment sales.

1. Seller ships goods to foreign distributor or other agent ("consignee").
2. Consignee sells the goods.
3. Consignee pays the seller.

OBJECTIVE 10

Outline a policy for meeting conditions of payment in letters of credit.

1. Notify appropriate parties **immediately** upon receiving the L/C.
   - Company international traffic department
   - Freight forwarder
   - International banker
   - International insurance broker
   - Other parties
2. Check for discrepancies between agreed-upon terms and the L/C terms.
3. Verify compliance.
   - Ability to comply with all terms specified
   - Ability to meet latest shipping and expiration dates at the place of expiration (U.S. or foreign)
4. Prepare, assemble, and review required documents.
   - Required documents for the particular credit
   - Required number of copies
   - Signatures
5. Review and present the draft for payment.
   - Agreement with L/C wording and terms
   - Agreement between amounts in numbers and words
   - Proper endorsement and date

- Sufficiency of L/C balance for the draft
- No changes or erasures on the draft

OBJECTIVE 11 **List ways to prevent common collection problems.**

Problem	**Prevention**
Buyer defaults on payment	• Use a confirmed irrevocable L/C. • Contact and negotiate with the buyer. • Consult qualified legal counsel about arbitration and other solutions.
Buyer's bank defaults on payment	• Use a confirmed irrevocable L/C. • Consult qualified legal counsel about possible solutions.
Buyer refuses to pay until after receiving goods	• Avoid cash in advance sales. • Contact and negotiate with the buyer.
Buyer delays payment by delaying acceptance of a sight draft or time draft	• Consider a **date** draft.
Delayed payment under L/C	• If L/C terms are not agreeable, **immediately** request buyer to get an amendment from the issuing bank. • Consult an international banking specialist when preparing documents. • Check all required documents against the L/C for possible discrepancies.

DOCUMENTS IN A BASIC LETTER OF CREDIT TRANSACTION

DIRECTIONS

- See the following sample documents and the explanation of key points on each.
- Study this Supplement before you complete Assignment 1.

SOURCE: The documents presented in this Supplement courtesy of the Bank of Oklahoma, Tulsa, Oklahoma.

THE ADVISING BANK'S COVER LETTER

1 The type of credit opened. In this sample, the credit is an irrevocable letter of credit. (An irrevocable L/C cannot be amended or cancelled without the approval of the buyer **and** the seller.)

2 The person in whose favor the credit is opened.

3 The party that is opening the credit in the favor of the named beneficiary.

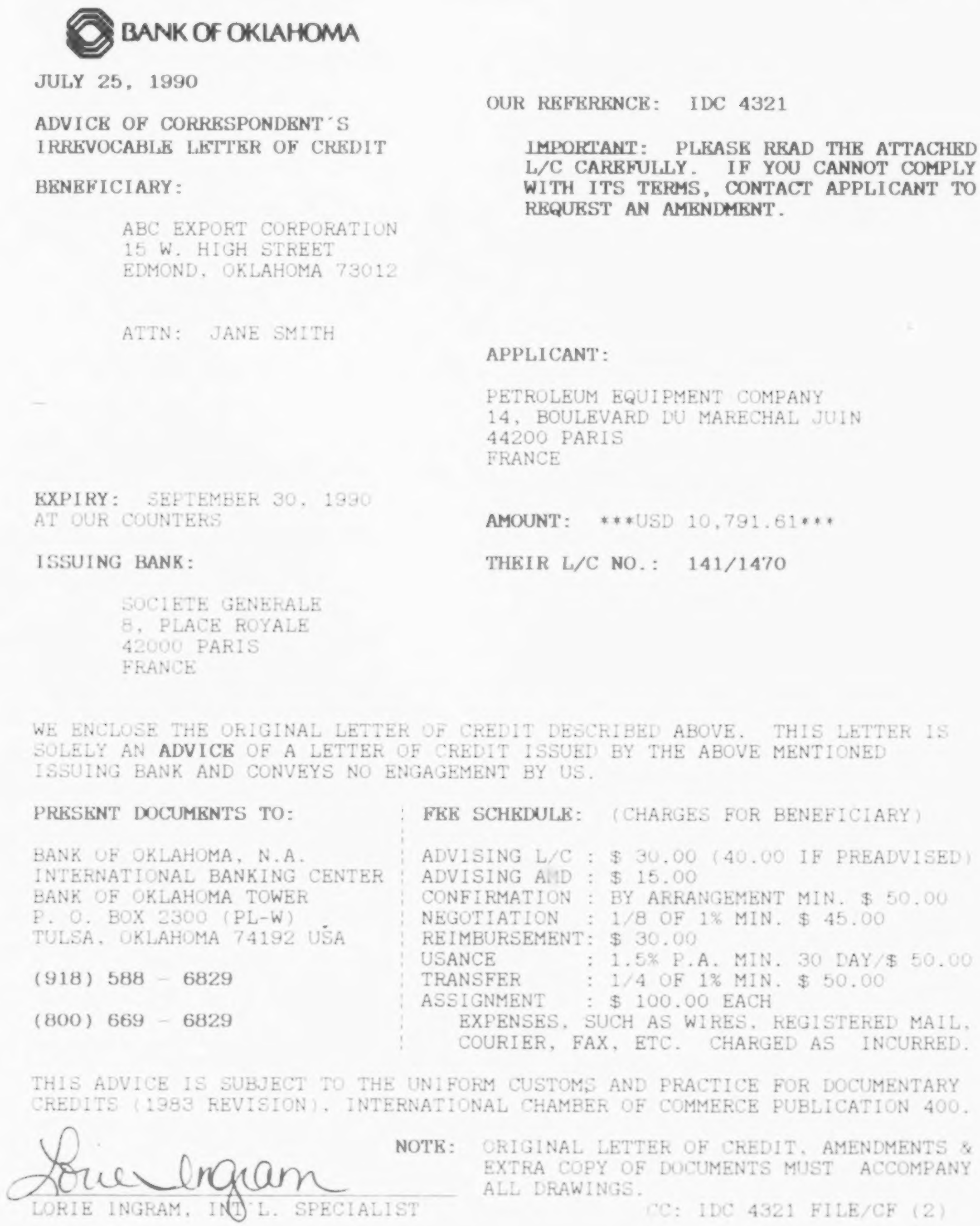
4 The date and place that this particular credit expires. In this sample, the seller must comply with the terms of the letter of credit by September 30, 1990. (If the date and place of expiry is not acceptable, the seller should immediately contact the buyer to request an amendment.)

5 The amount of the credit in the appropriate currency. In this sample, the amount is in U.S. dollars (USD).

6 The bank that is opening the credit on the buyer's behalf.

7 The role of the advising bank. In this sample, the advising bank authenticates the genuineness of the credit but does not confirm the credit.

NOTE: If the advising bank also confirmed the credit; i.e., if it promised to honor the drafts drawn in compliance with the terms of the credit (even if the issuing bank defaulted), the credit would be a **confirmed irrevocable L/C** and the advising bank would also be the **confirming bank**.



BANK OF OKLAHOMA

JULY 25, 1990

OUR REFERENCE: IDC 4321

ADVICE OF CORRESPONDENT'S
IRREVOCABLE LETTER OF CREDIT

IMPORTANT: PLEASE READ THE ATTACHED L/C CAREFULLY. IF YOU CANNOT COMPLY WITH ITS TERMS, CONTACT APPLICANT TO REQUEST AN AMENDMENT.

BENEFICIARY:

ABC EXPORT CORPORATION
15 W. HIGH STREET
EDMOND, OKLAHOMA 73012

ATTN: JANE SMITH

APPLICANT:

PETROLEUM EQUIPMENT COMPANY
14, BOULEVARD DU MARECHAL JUIN
44200 PARIS
FRANCE

EXPIRY: SEPTEMBER 30, 1990
AT OUR COUNTERS

AMOUNT: ***USD 10,791.61***

ISSUING BANK:

THEIR L/C NO.: 141/1470

SOCIETE GENERALE
8, PLACE ROYALE
42000 PARIS
FRANCE

WE ENCLOSE THE ORIGINAL LETTER OF CREDIT DESCRIBED ABOVE. THIS LETTER IS SOLELY AN **ADVICE** OF A LETTER OF CREDIT ISSUED BY THE ABOVE MENTIONED ISSUING BANK AND CONVEYS NO ENGAGEMENT BY US.

PRESENT DOCUMENTS TO:

BANK OF OKLAHOMA, N.A.
INTERNATIONAL BANKING CENTER
BANK OF OKLAHOMA TOWER
P. O. BOX 2300 (PL-W)
TULSA, OKLAHOMA 74192 USA

(918) 588 – 6829

(800) 669 – 6829

FEE SCHEDULE: (CHARGES FOR BENEFICIARY)

ADVISING L/C	$ 30.00 (40.00 IF PREADVISED)
ADVISING AMD	$ 15.00
CONFIRMATION	BY ARRANGEMENT MIN. $ 50.00
NEGOTIATION	1/8 OF 1% MIN. $ 45.00
REIMBURSEMENT	$ 30.00
USANCE	1.5% P.A. MIN. 30 DAY/$ 50.00
TRANSFER	1/4 OF 1% MIN. $ 50.00
ASSIGNMENT	$ 100.00 EACH

EXPENSES, SUCH AS WIRES, REGISTERED MAIL, COURIER, FAX, ETC. CHARGED AS INCURRED.

THIS ADVICE IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1983 REVISION), INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION 400.

Lorie Ingram
LORIE INGRAM, INT'L. SPECIALIST

NOTE: ORIGINAL LETTER OF CREDIT, AMENDMENTS & EXTRA COPY OF DOCUMENTS MUST ACCOMPANY ALL DRAWINGS.

CC: IDC 4321 FILE/CF (2)

FIGURE 13-4. The advising bank's cover letter.

THE LETTER OF CREDIT

IMPORTANT: Read the L/C carefully. If you cannot comply with its terms, contact the applicant immediately to request an amendment.

1. The type of credit opened and its L/C number. The term "documentary credit" is the actual term for a letter of credit, although "letter of credit" and "L/C" have become part of the vocabulary of exporting. The L/C number is important because your drafts must be drawn under the proper L/C number.

2. The date and place that this particular credit expires.

3. The applicant. (The party that is opening the credit in the favor of the named beneficiary.)

4. The beneficiary. (The person in whose favor the credit is opened.)

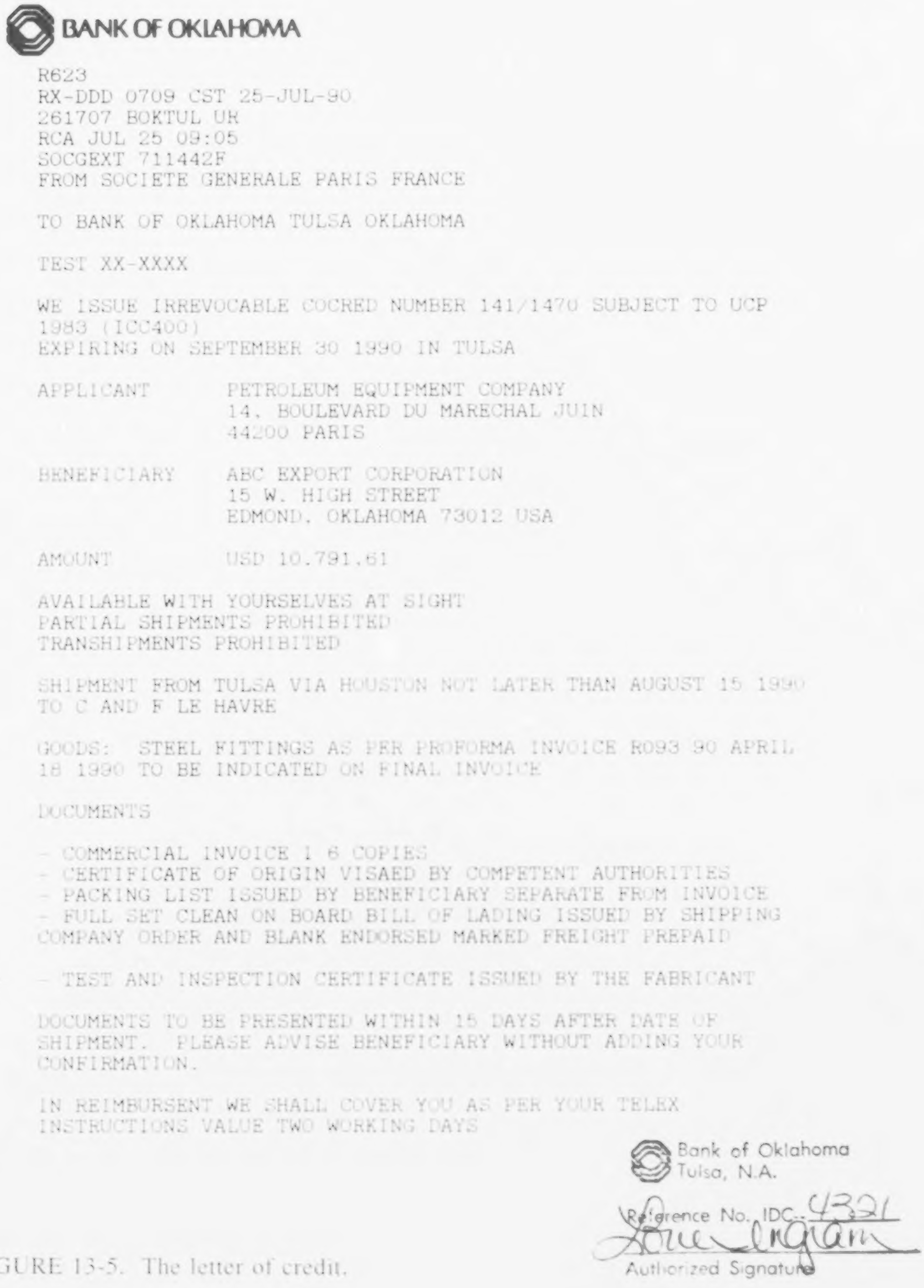
5. The amount of the credit in the appropriate currency.

6. The method of payment. In this sample, the method of payment is a sight draft.

7. The latest shipping date and terms of sale.

8. The collection papers (documents) required.

9. Other conditions of the credit.



BANK OF OKLAHOMA

R623
RX-DDD 0709 CST 25-JUL-90
261707 BOKTUL UR
RCA JUL 25 09:05
SOCGEXT 711442F
FROM SOCIETE GENERALE PARIS FRANCE

TO BANK OF OKLAHOMA TULSA OKLAHOMA

TEST XX-XXXX

WE ISSUE IRREVOCABLE COCRED NUMBER 141/1470 SUBJECT TO UCP 1983 (ICC400)
EXPIRING ON SEPTEMBER 30 1990 IN TULSA

APPLICANT PETROLEUM EQUIPMENT COMPANY
14, BOULEVARD DU MARECHAL JUIN
44200 PARIS

BENEFICIARY ABC EXPORT CORPORATION
15 W. HIGH STREET
EDMOND, OKLAHOMA 73012 USA

AMOUNT USD 10.791.61

AVAILABLE WITH YOURSELVES AT SIGHT
PARTIAL SHIPMENTS PROHIBITED
TRANSHIPMENTS PROHIBITED

SHIPMENT FROM TULSA VIA HOUSTON NOT LATER THAN AUGUST 15 1990 TO C AND F LE HAVRE

GOODS: STEEL FITTINGS AS PER PROFORMA INVOICE R093 90 APRIL 18 1990 TO BE INDICATED ON FINAL INVOICE

DOCUMENTS

- COMMERCIAL INVOICE 1 6 COPIES
- CERTIFICATE OF ORIGIN VISAED BY COMPETENT AUTHORITIES
- PACKING LIST ISSUED BY BENEFICIARY SEPARATE FROM INVOICE
- FULL SET CLEAN ON BOARD BILL OF LADING ISSUED BY SHIPPING COMPANY ORDER AND BLANK ENDORSED MARKED FREIGHT PREPAID

- TEST AND INSPECTION CERTIFICATE ISSUED BY THE FABRICANT

DOCUMENTS TO BE PRESENTED WITHIN 15 DAYS AFTER DATE OF SHIPMENT. PLEASE ADVISE BENEFICIARY WITHOUT ADDING YOUR CONFIRMATION.

IN REIMBURSENT WE SHALL COVER YOU AS PER YOUR TELEX INSTRUCTIONS VALUE TWO WORKING DAYS

Bank of Oklahoma
Tulsa, N.A.

Reference No. IDC- 4321
Lorie Ingram
Authorized Signature

FIGURE 13-5. The letter of credit.

DOCUMENTATION CHECKLISTS FOR LETTERS OF CREDIT

DIRECTIONS

- Review the appropriate checklists before you present documents required under a commercial letter of credit (**not** a standby L/C).

  NOTE: This Supplement cannot cover all of the documents that might be required under a particular letter of credit.

- Get qualified advice from international banking specialists if you are unsure about any documents required under a letter of credit.

  IMPORTANT: Getting qualified advice before presenting documents for payment can help you to eliminate many **discrepancies** and avoid delays in payment.

SOURCE: Adapted with permission from *Exporter's Guide to the Preparation of Documents Under Letters of Credit*. Bank of Oklahoma, Tulsa, Oklahoma.

THE LETTER OF CREDIT

WHEN RECEIVING A L/C

NOTE: Check these items when you receive a letter of credit. If a problem exists with any of these items, contact your buyer **immediately** to seek an amendment.

Yes	No	
______	______	1. Have you notified appropriate parties about your receipt of the L/C?
______	______	2. Do L/C terms match your agreed-upon terms?
______	______	3. Can you comply with all of the terms?
______	______	4. Can you meet the latest shipping and expiration dates at the place of expiration (in the United States or in the buyer's country, as stated)?
______	______	5. Is the L/C irrevocable?

BEFORE PRESENTING DOCUMENTS UNDER A L/C

______	______	6. Has the L/C expired?
______	______	7. Will the balance of the L/C cover the amount you are drawing?
______	______	8. Do the documents prepared relate to this particular credit and not to another credit for similar goods?
______	______	9. Have you prepared all of the documents required under the L/C?
______	______	10. Have you prepared all documents exactly as stated in the L/C?
______	______	11. Have you prepared the required number of copies of each required document?
______	______	12. Are all documents signed where needed?
______	______	13. Are all documents dated where needed?

Name ______________________________ Score __________

OBJECTIVE 12

Interpret documents in a basic letter of credit transaction.

INTRODUCTION

A commercial letter of credit (L/C) is one of the most secure and most common methods of payment. Letters of credit involve banks as neutral third parties facilitating the transaction between you and the buyer. Because the bank does not see the export goods, it must verify the compliance of the seller and the buyer with the agreed-upon terms of payment by examining the documents required under the terms of the L/C.

Failure to correctly interpret a letter of credit or failure to comply **exactly** with the terms of the L/C can delay the buyer's receipt of your goods, delay your payment, or cause other costly problems.

DIRECTIONS

- Study the sample documents and the explanation of key points in Supplement 1.
- Review the checklists in Supplement 2.
- Study the sample documents in this Assignment, then answer the questions that follow.

BANK OF OKLAHOMA

JULY 25, 1990

OUR REFERENCE: IDC 1234

ADVICE OF CORRESPONDENT'S IRREVOCABLE LETTER OF CREDIT

IMPORTANT: PLEASE READ THE ATTACHED L/C CAREFULLY. IF YOU CANNOT COMPLY WITH ITS TERMS, CONTACT APPLICANT TO REQUEST AN AMENDMENT.

BENEFICIARY:

OKLAHOMA TOOL COMPANY
7615 S. HARVARD
TULSA, OKLAHOMA 74321

ATTN: JOHN RICHARDS

APPLICANT:

HYUNDAI CORPORATION
140-2 GYE-DONG
CHONGRU-KU
SEOUL, KOREA

EXPIRY: SEPTEMBER 13, 1990
AT OUR COUNTERS

AMOUNT: ***USD 16,769.40***

ISSUING BANK:

SHINHAN BANK
120, 2-KA, TAEPYUNG-RO
CHUNG-KU
SEOUL 100-102
KOREA

THEIR L/C NO.: M4220006BS12173

WE ENCLOSE THE ORIGINAL LETTER OF CREDIT DESCRIBED ABOVE. WE **CONFIRM** THIS CREDIT AND THEREBY UNDERTAKE THAT ALL DRAFTS DRAWN IN STRICT COMPLIANCE WITH THE TERMS OF THE ORIGINAL CREDIT, AMENDMENTS THERETO, AND IN ACCORDANCE WITH ANY CONDITIONS STIPULATED IN THIS ADVICE, WILL BE DULY HONORED BY US. DOCUMENTS MUST BE PRESENTED TO BANK OF OKLAHOMA, N.A.

PRESENT DOCUMENTS TO:

BANK OF OKLAHOMA, N.A.
INTERNATIONAL BANKING CENTER
BANK OF OKLAHOMA TOWER
P. O. BOX 2300 (PL-W)
TULSA, OKLAHOMA 74192 USA

(918) 588 - 6829

(800) 669 - 6829

FEE SCHEDULE: (CHARGES FOR BENEFICIARY)

ADVISING L/C : $ 30.00 (40.00 IF PREADVISED)
ADVISING AMD : $ 15.00
CONFIRMATION : BY ARRANGEMENT MIN. $ 50.00
NEGOTIATION : 1/8 OF 1% MIN. $ 45.00
REIMBURSEMENT: $ 30.00
USANCE : 1.5% P.A. MIN. 30 DAY/$ 50.00
TRANSFER : 1/4 OF 1% MIN. $ 50.00
ASSIGNMENT : $ 100.00 EACH
EXPENSES, SUCH AS WIRES, REGISTERED MAIL, COURIER, FAX, ETC. CHARGED AS INCURRED.

THIS ADVICE IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1983 REVISION), INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION 400.

Lorie Ingram
LORIE INGRAM, INTL. SPECIALIST

NOTE: ORIGINAL LETTER OF CREDIT, AMENDMENTS & EXTRA COPY OF DOCUMENTS MUST ACCOMPANY ALL DRAWINGS.

CC: IDC 1234 FILE/CF (2)

BANK OF OKLAHOMA

R623
RX-DDD 0709 CST 25-JUL-90
261707 BOKTUL UR
RCA JUL 25 09:05
SHINHANBANK
TO BANK OF OKLAHOMA, OKLAHOMA FM SHINHAN BANK SEOUL

JUL 25 1990 MSG NO. 07166/606

TEST XX-XXXX

ADVISE BENEFICIARY: OKLAHOMA TOOL COMPANY, 7615 S. HARVARD, TULSA, OKLAHOMA 74321 ADDING YOUR CONFIRMATION OUR IRREVOCABLE CREDIT NO. M4220006BS12173
APPLICANT: HYUNDAI CORPORATION, 140-2 GYE-DONG, CHONGRU-KU, SEOUL, KOREA FOR AMT USD 16,769.40 SAY US DOLLARS SIXTEEN THOUSAND SEVEN HUNDRED SIXTY NINE CENTS FORTY ONLY.

EXPIRY DATE: SEP. 13, 1990 AVAILABLE WITH ANY BANK BY NEGOTIATION OF YOUR DRAFTS AT SIGHT ON OURSELVES FOR 100 PCT OF INVOICE VALUE ACCOMPANIED BY THE FOLLOWING DOCUMENTS:

1. COMMERCIAL INVOICE IN QUINTUPLICATE.
2. PACKING LIST IN TRIPLICATE.
3. AIRWAY BILLS CONSIGNED TO SHINHAN BANK MARKED FREIGHT COLLECT AND NOTIFY HYUNDAI HEAVY IND CO LTD.

COVERING VALVE PARTS 1 SET FOR USD 16,769.40 DETAILS ARE AS PER OFFER NO. HF78654K. ORIGIN U.S.A. FOB HOUSTON AIRPORT. SHIPMENT FROM HOUSTON AIRPORT TO KOREAN AIRPORT LATEST AUGUST 29, 1990. PARTIAL SHIPMENTS PROHIBITED. TRANSHIPMENT PERMITTED.
SPECIAL INSTRUCTIONS:
ALL DOCUMENTS MUST BEAR OUR CREDIT NUMBER. ALL BANKING CHARGES INCLUDING POSTAGE OUTSIDE OF KOREA ARE FOR ACCOUNT OF BENEFICIARY. PLS MARK NOTIFY PARTY HYUNDAI HEAVY IND CO LTD. ON INVOICE AND PACKING LIST.
THE NEGOTIATING BANK IS AUTHORIZED TO DRAW AT SIGHT ON SHINHAN BANK, NEW YORK. THIS IS THE OPERATIVE INSTRUMENT AND NO MAIL CONFIRMATION TO FOLLOW. THIS CREDIT IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICES FOR DOCUMENTARY CREDITS (1983 REVISION) ICC PUBLICATION NO. 400

SHINHAN BANK

COL XX-XXXX 16769.40
;06151845 SLR884 ;061509512
; 06150957 SHLD042 SBT859 NNNN BOKTUL UR
SHINHAN BANK UR
MMMM

BANK OF OKLAHOMA, n.a.
Reference No. IDC-- 1234
Authorized Signature
WE ADD OUR CONFIRMATION

1. What type of credit is opened?

   ____

2. In whose favor is the credit opened?

   ____

3. Will the advising bank honor your drafts and documents even if the Shinhan Bank should default? Why or why not?

   ____

   ____

4. Could you present a draft for payment under the terms of this L/C on September 17, 1990?

   ____

5. If you had agreed with the foreign buyer upon deferred payment at 90 days, should you request an amendment to this L/C? Why or why not?

   ____

   ____

6. Who assumes the costs and risks associated with moving the goods from the Houston airport to the Korean airport?

   ____

7. If you cannot ship the goods until August 31, should you request an amendment to this L/C? Why or why not?

   ____

8. If you present three copies of the commercial invoice, three copies of the packing list, and the air waybills consigned to Shinhan Bank as stated, have you complied with the documentation requirements of the L/C?

   ____

9. Must Hyundai Corporation pay for banking charges in the United States?

   ____

10. Can your draft be drawn under the L/C number M4220006BS12174?

    ____

ASSIGNMENT 1

1. Confirmed irrevocable
2. Oklahoma Tool Company
3. Yes. The advising bank has confirmed this credit and becomes the "confirming bank." A confirming bank is a U.S. bank that promises to honor the drafts and documents presented by the seller even if the issuing bank (Shinhan Bank) defaults.
4. No.
5. Yes. The letter of credit specifies "negotiation of your drafts at sight" which indicates a sight draft, not your agreed-upon deferred payment.
6. The buyer.
7. Yes. The letter of credit specifies a latest shipping date of August 29, 1990.
8. No, because the letter of credit specifies that you must present the commercial invoice in "quintuplicate" (four copies), not three copies.
9. The beneficiary (Oklahoma Tool Company).
10. No, because the L/C number is M4220006BS12173.

QUICK CHECK

PAYMENT AND COLLECTION

13

Name ______________________________ Score __________

OBJECTIVE 1

Match terms associated with methods of payment and collection with their correct definitions. Write the correct letter in each blank.

____ 1. A U.S. bank that promises to honor the drafts and documents presented by the seller even if the issuing bank defaults

____ 2. A change made to one or more terms of the original letter of credit

____ 3. Receiving payment for export goods in the form of goods and/or services from the buyer

____ 4. Shipping the goods to the buyer after the buyer has made payment

____ 5. A draft to which no documents have been attached

____ 6. All documents submitted to a buyer in order to receive payment for a shipment

____ 7. The party that opens a letter of credit; also referred to as the buyer, importer, accountee or applicant

____ 8. The seller ("consignor") ships the goods to a foreign distributor or other agent ("consignee"), who sells the goods on behalf of the seller and makes payment after the sale; the seller retains title to the goods until they are sold by the consignee

____ 9. A bank that sends a draft to a foreign bank for collection

____ 10. The person in whose favor a letter of credit is issued or a draft is drawn; also referred to as the seller, exporter, drawer or shipper

____ 11. A method of payment in which the seller receives payment in whole or in part in the form of goods or services transferred from the foreign country

a. Acceptance
b. Account party
c. Advising bank
d. Amendment
e. Barter
f. Beneficiary
g. Cash in advance
h. Clean draft
i. Collection papers
j. Confirmed irrevocable L/C
k. Confirming bank
l. Consignment sales
m. Countertrade
n. Date draft
o. Discrepancy
p. Draft
q. Irrevocable L/C
r. Issuing bank
s. Letter of credit
t. Open account
u. Presentation
v. Remitting bank

___12. When the documents presented under a letter of credit do not conform to the terms of the letter of credit, often resulting when required information is missing or varies from the stated text of the letter

___13. (1) A time draft that the drawee has accepted and must pay at maturity; (2) the drawee's act in receiving a draft and thereby becoming obligated to pay its value at maturity; and (3) any agreement to purchase goods under specified terms (in a broad sense)

___14. A U.S. bank that handles letters of credit for a foreign bank by notifying the seller that credit has been opened in the seller's favor under specified conditions of the letter of credit; the bank authenticates the genuineness of the credit

___15. A formal demand for future payment sent to the buyer's bank, with required shipping documents, after the seller ships the goods; the buyer's bank releases the shipping documents allowing the buyer to take possession of the goods, only after the buyer's acceptance, i.e. the buyer's written promise to pay the draft at maturity; also called Documents Against Acceptance (D/A)

___16. An unconditional order in writing from the drawer to the drawee that directs the drawee to pay a specified amount to a named drawer at a fixed or determinable future date; also called a "bill of exchange;" in letter of credit transactions, it is the formal, legal demand for payment

___17. The bank that opens a letter of credit for the buyer; also called the opening bank

___18. A formal demand for payment sent to the buyer's bank, with required shipping documents, after the seller ships the goods; the buyer's bank releases the shipping documents allowing the buyer to take possession of the goods, only after the buyer makes payment; also called Cash Against Documents (CAD or C/D) or Documents Against Payment (DAP or D/P)

w. Revocable L/C

x. Sight draft

y. Standby L/C

z. Time draft

aa. Unconfirmed irrevocable L/C

___ 19. A payment guarantee from the buyer allowing the seller to receive payment after the seller has presented specified documents that comply with stated terms and conditions in the credit; the issuing bank substitutes its credit for the buyer's credit; also called an L/C

___ 20. The issuing bank promises to pay the seller even if the buyer defaults

___ 21. Similar to a time draft, but stating a due date for the buyer's payment instead of allowing a time period after the buyer's acceptance

___ 22. The issuing bank assumes the sole responsibility for paying the seller

___ 23. A U.S. bank promises to pay the seller even if the issuing bank defaults

___ 24. Shipping the goods to the buyer, without a letter of credit or a documentary collection arrangement; the seller invoices the buyer for the shipment and relies upon the buyer to pay

___ 25. When collection papers are submitted, often to a bank under the terms of an L/C, allowing the seller to receive payment for a shipment

___ 26. A letter of credit that can be amended or cancelled by the buyer or the issuing bank at any time, without the seller's approval (providing no protection to the seller)

___ 27. A letter of credit that functions as a "security device" to protect a third party from loss when the seller fails to perform certain obligations; at the request of the seller, the issuing bank gives the buyer the right to draw funds by presenting certain documents according to the terms and conditions set forth in the credit; the documents required might simply be the buyer's statement that the seller has defaulted

OBJECTIVE 2

Rank in order from most secure (for the exporter) to least secure the basic methods of payment. Write the correct numbers 1-5 in the blanks, with 1 being "most secure" and 5 being "least secure."

____Documentary collections (sight draft or time draft)

____Cash in advance

____Open account

____Letter of credit

____Consignment sales

OBJECTIVE 3

Identify in order the steps in an export sales transaction using a commercial letter of credit (basic). Write the correct numbers 1-6 in the blanks.

____Buyer obtains L/C from buyer's bank.

____Using buyer's terms, buyer's bank (issuing bank) prepares L/C.

____Issuing bank transmits payment to seller through seller's bank.

____Seller presents documents required under the L/C to seller's bank.

____Issuing bank transmits completed L/C to seller's bank (advising or confirming bank).

____Seller's bank verifies documents against L/C terms.

OBJECTIVE 4

Identify in order the steps in an export sales transaction using a standby letter of credit. Write the correct numbers 1-3 in the blanks.

____Seller obtains L/C from seller's bank.

____If seller fails to perform, buyer presents draft with demand for payment.

____Issuing bank pays buyer.

OBJECTIVE 5

Identify in order the steps in an export sales transaction using a sight draft. Write the correct numbers 1-5 in the blanks.

___ Seller ships goods to buyer.

___ Seller submits formal demand for payment to buyer's bank with required shipping documents.

___ Buyer's bank releases shipping documents to buyer.

___ Buyer takes possession of goods.

___ Buyer pays seller through buyer's bank.

OBJECTIVE 6

Identify in order the steps in an export sales transaction using a time draft. Write the correct numbers 1-6 in the blanks.

___ Seller submits formal demand for future payment to buyer's bank with required shipping documents.

___ Seller ships goods to buyer.

___ Buyer's bank releases shipping documents to buyer.

___ Buyer promises in writing to pay draft at maturity ("buyer's acceptance").

___ Buyer takes possession of goods.

___ Buyer's bank transmits payment to seller at draft's maturity.

OBJECTIVE 7

Identify in order the steps in an export sales transaction using open account. Write the correct numbers 1-3 in the blanks.

___ Seller ships goods to buyer.

___ Seller invoices buyer for shipment.

___ Buyer pays seller.

OBJECTIVE 8

Identify in order the steps in an export sales transaction using cash in advance. Write the correct numbers 1-2 in the blanks.

___ Seller ships goods to buyer.

___ Buyer pays seller.

OBJECTIVE 9

Identify in order the steps in an export sales transaction using consignment sales. Write the correct numbers 1-3 in the blanks.

____Seller ships goods to foreign distributor or other agent ("consignee").

____Consignee pays the seller.

____Consignee sells the goods.

OBJECTIVE 10

Outline a policy for meeting conditions of payment in letters of credit. Write the correct numbers 1-5 in the blanks.

____Notify appropriate parties **immediately** upon receiving the L/C.

____Verify compliance.

____Prepare, assemble, and review required documents.

____Check for discrepancies between agreed-upon terms and the L/C terms.

____Review and present the draft for payment.

OBJECTIVE 11

List ways to prevent common collection problems. List four (4) ways.

1. ______________________________

____

2. ______________________________

____

3. ______________________________

____

4. ______________________________

____

NOTICE

The objective listed below is not part of the Quick Check.

OBJECTIVE 12

Interpret documents in a basic letter of credit transaction.

SCORE ________

QUICK CHECK ANSWERS

PAYMENT AND COLLECTION

13

OBJECTIVE 1

1. k
2. d
3. e
4. g
5. h
6. i
7. b
8. l
9. v
10. f
11. m
12. o
13. a
14. c
15. z
16. p
17. r
18. x
19. s
20. q
21. n
22. aa
23. j
24. t
25. u
26. w
27. y

OBJECTIVE 2

3 Documentary collections (sight draft or time draft)

1 Cash in advance

4 Open account

2 Letter of credit

5 Consignment sales

OBJECTIVE 3

1 Buyer obtains L/C from buyer's bank.

2 Using buyer's terms, buyer's bank (issuing bank) prepares L/C.

6 Issuing bank transmits payment to seller through seller's bank.

4 Seller presents documents required under the L/C to seller's bank.

3 Issuing bank transmits completed L/C to seller's bank (advising or confirming bank).

5 Seller's bank verifies documents against L/C terms.

OBJECTIVE 4

1 Seller obtains L/C from seller's bank.

2 If seller fails to perform, buyer presents draft with demand for payment.

3 Issuing bank pays buyer.

OBJECTIVE 5

1 Seller ships goods to buyer.

2 Seller submits formal demand for payment to buyer's bank with required shipping documents.

4 Buyer's bank releases shipping documents to buyer.

5 Buyer takes possession of goods.

3 Buyer pays seller through buyer's bank.

OBJECTIVE 6

2 Seller submits formal demand for future payment to buyer's bank with required shipping documents.

1 Seller ships goods to buyer.

4 Buyer's bank releases shipping documents to buyer.

3 Buyer promises in writing to pay draft at maturity ("buyer's acceptance").

5 Buyer takes possession of goods.

6 Buyer's bank transmits payment to seller at draft's maturity.

OBJECTIVE 7

1 Seller ships goods to buyer.

2 Seller invoices buyer for shipment.

3 Buyer pays seller.

OBJECTIVE 8

2 Seller ships goods to buyer.

1 Buyer pays seller.

OBJECTIVE 9

1 Seller ships goods to foreign distributor or other agent ("consignee").

3 Consignee pays the seller.

2 Consignee sells the goods.

OBJECTIVE 10

1 Notify appropriate parties **immediately** upon receiving the L/C.

3 Verify compliance.

4 Prepare, assemble, and review required documents.

2 Check for discrepancies between agreed-upon terms and the L/C terms.

5 Review and present the draft for payment.

OBJECTIVE 11

Any four of the following:

- Use a confirmed irrevocable L/C.
- Contact and negotiate with the buyer.
- Consult qualified legal counsel about arbitration and other solutions.
- Consult qualified legal counsel about possible solutions.
- Avoid cash in advance sales.
- Consider a **date** draft.
- If L/C terms are not agreeable, **immediately** request buyer to get an amendment from the issuing bank.
- Consult an international banking specialist when preparing documents.
- Check all required documents against the L/C for possible discrepancies.

UNIT OBJECTIVES

EXPORT DOCUMENTS AND THE MOVEMENT OF GOODS

14

INTRODUCTION

Export goods "move on paper." Like domestic sales, export sales require certain documents to record the movement of the shipment from the manufacturer's door to the buyer. Some documents are the same for domestic sales and export sales. However, many are unique to exporting. Export documents are important for moving the goods through the channel of distribution, transferring responsibility or possession, clearing the goods through customs, and facilitating payment according to agreed-upon terms. Some documents are also required to satisfy U.S. export regulations or foreign import regulations. The types of documents needed for an export shipment can vary depending on the type of goods, their foreign destination, and other factors. Although some companies handle their own paperwork for export sales, many depend on the professional services of freight forwarders. Freight forwarding services can include preparing and reviewing export shipping documents, and other shipping-related services. The careful preparation of export documents can help to prevent costly mistakes and delays.

UNIT OBJECTIVE

After completing this unit, you should be familiar with basic export documents and the steps in the shipping documentation process. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you should be able to

1. Match terms associated with the movement of goods with their correct definitions.
2. Identify in order major steps in the shipping documentation process.
3. Distinguish among functions of freight forwarders, NVOCCs and customs brokers.
4. Explain the purposes of export documentation.
5. Match common export documents with their correct definitions.
6. State basic guidelines for preparing export documents.
7. State the limits of a freight forwarder's liability.
8. Match modes of transportation with their advantages and disadvantages.
9. List common elements of shipping costs.

10. Discuss the movement of dangerous goods.

11. Compute metric equivalents. (Assignment 1)

PREPARATION

- Order additional materials to supplement this unit.

Publications

— *A Basic Guide to Exporting* (Current edition)

— Shipper's Export Declaration (Form 7525-V)

— "Correct Way To Fill Out The Shipper's Export Declarations" (May 1985)

Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; or contact Department of Commerce district offices.

— *Oklahoma Export Services Directory*. Available from the Center for International Trade Development, Hall of Fame and Washington, Stillwater, Oklahoma 74078-0390.

— *Ports of the World: A Guide to Cargo Loss Control* (Current edition). Available from CIGNA, P.O. Box 7728, Philadelphia, PA 19101.

Media

— *Documents of International Trade*. Color, 20 minutes, St. Louis Community College at Forest Park. Features the credit and collections process, the shipping process (routing, storing, insuring, and delivering), and the customs process to ensure compliance with government regulations. Available from International Business Video Resources, St. Louis Community College, 5600 Oakland Avenue, St. Louis, MO 63110.

- Review the unit and plan your presentation:

  — Estimate the amount of material that can be covered in each class session.

  — Plan for appropriate Assignments.

  — Identify objectives that you can supplement with other resources.

  - Invite guest speakers in advance.

    EXAMPLE: Area exporters and freight forwarders

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities in addition to the Assignments.

DELIVERY

Objective 1

- Emphasize the value of learning the "language of exporting," including terms and definitions.

- Describe a sample export sale and give examples of the parties to the sale relating to documentation and shipping, such as consolidator, freight forwarder, intermediate and ultimate consignee, etc.

Objective 2

- Refer participants to the discussion of Incoterms and review the responsibilities of the seller and the buyer under different terms of sale.

Objective 3

- Refer to the *Export Services Directory* to illustrate the availability of freight forwarding services.

- Invite a freight forwarder to describe the role of freight forwarders in the shipping documentation process.

Objectives 4 and 5

- Refer to the types of documents commonly required under letters of credit.

- Provide samples of as many documents as possible.

- Introduce Assignment 1. Relate the ability to compute metric equivalents to the preparation of export documents.

- Provide photocopies of the Shipper's Export Declaration (SED) for all participants. On a chalkboard, transparency or handout, list sample information needed to complete the SED. Ask participants to fill-in their copies of the SED using your sample information and the guidelines stated in the DOC publication *Correct Way to Fill Out the Shipper's Export Declarations.* (Provide participants with a copy or photocopy.)

Objective 6

- Design a sample recordkeeping form on which participants can record information useful in preparing export documents. (The purpose of the form is to help participants manage the information required on export documents by recording required data in one place on one form). Recorded information could include:

  - Exporter's name and address
  - Names, addresses, telephone numbers and fax numbers of ultimate consignees and intermediate consignees
  - Names, addresses and telephone numbers of forwarding carriers
  - HS numbers and units of measure for specific export goods
  - Commodity description and description of end-use for each export item
  - Types of packages (boxes, barrels, etc.)
  - Marks, symbols, numbers or other identification used on packages
  - Units of quantity for each export item (including metric equivalents)
  - Validated license number or general license symbol
  - Required documents for specific countries (for goods previously exported)
  - Preferred terms of sale and methods of payment and collection (for goods previously exported)
  - In-house contact persons for questions about export transactions
  - Export resource contact persons (names and phone numbers) such as freight forwarders, international banking specialists, legal counsel, translators and others

- Refer to Supplement 1.

Objective 7

- Illustrate the limits of a freight forwarder's liability graphically, if possible. Show how the freight forwarder's limited liability creates the need for additional insurance protection for the export goods.

Objective 8-10

- Describe common types of shipments or situations where one mode of transportation is more appropriate than others, or describe types of export goods requiring specific modes of transportation.

- Ask participants why each question for evaluating modes of transportation is important.

- Invite a freight forwarder to discuss services and fees.

- Invite a freight forwarder to discuss the movement of dangerous goods and applicable regulations. Refer to Supplement 2.

APPLICATION

Objective 11

- Complete the Assignment as an in-class or take-home activity after discussing the related objectives.

- Review the related objectives before completing the Assignment, if needed.

- Create additional Assignments, as needed, to reinforce the objectives and/or to meet the needs of participants.

EVALUATION

- Give the Quick Check soon after presenting the unit and after completing the Assignment.

- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- *A Basic Guide to Exporting*, U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service. September 1986.

- "Fundamentals of Exporting" and "Shipping and Documentation" workshops, offered by Oklahoma International Export Services (OIES), a joint program of the Oklahoma Department of Commerce and the U.S. and Foreign Commercial Service of the U.S. Department of Commerce.

- Export Administration Regulations (Parts 768-799, inclusive, of Title 15 of the Code of Federal Regulations).

- *Ports of the World—A Guide to Cargo Loss Control*, Twelfth Edition, Insurance Company of North America.

OBJECTIVE 1

Match terms associated with the movement of goods with their correct definitions.

Carrier—The transporter of the export shipment on land, air or ocean

Clearing agent—Assists in clearing export shipments through customs; also called a "customs broker"

Conference carrier—An ocean carrier that belongs to an association of carriers offering standardized shipping practices, common freight rates, and regularly-scheduled service between specific ports ·

Consolidator—A specialized firm or service that groups several export shipments having the same destination, to obtain better pricing or service, with or without containerization

Containerize—Packing export goods in sealable metal containers for shipping, including intermodal cargo movement

Door-to-Door—Transporting a shipment of export goods from the manufacturer's premises to the foreign buyer's location

Export documentation—The documents that accompany the movement of an export shipment

NOTE: The documents required for each export shipment may vary.

Federal Maritime Commission—Regulates ocean shipping

Freight forwarder—A specialized firm acting as an agent for the exporter and international carriers in preparing export documents and contracting for shipment of the export goods

Independent/nonconference carrier—An ocean carrier that does not belong to a conference, but which operates on a regular schedule and may offer lower rates on some shipments than conference carriers

NOTE: This type of ocean carrier allocates space according to its availability, and may not provide service to all ports.

Intermediate consignee—The bank, forwarding agent, or other intermediary (if any) acting in a foreign country as an agent for the exporter, the buyer, or the ultimate consignee, to effect the delivery of the export goods to the ultimate consignee

Intermodal cargo movement—The use of different modes of transportation to move an export shipment, including inland freight such as by rail or by truck

International Air Transport Association (IATA)—A trade and service organization for airlines having international routes; functions include classifying containers and working for uniform rules and rates

LCL shipment—A shipment of export goods that is less than a full container load

NVOCC ("Non-Vessel Operating Common Carrier")—An indirect common carrier that is licensed by the Federal Maritime Commission to transport sea freight under its own rate structure and that does not own its own vessels

EXAMPLE: Many freight forwarders also perform NVOCC functions.

Pilferage—A cause of loss where small amounts of a shipment are stolen

EXAMPLE: Stealing a few calculators from a box packed with calculators

Port-to-Port—Transporting a shipment of export goods only for the shipping interval between the port of export and the foreign port

Roll-On/Roll-Off (Ro/Ro) service—A vessel that carries mainly wheeled cargo, such as cars, trucks, trailers, machinery and others, which are loaded and unloaded by driving the cargo onto and off of the vessel via a ramp

Tariff—Point-to-point transportation rates

Tramp service—An ocean carrier usually having no fixed routes, rates, or schedules, and often carrying a single bulk cargo between a loading port and a discharge port

Ultimate consignee—The foreign party that will actually receive the export goods for their designated end-use

OBJECTIVE 2

Identify in order major steps in the shipping documentation process.

NOTE: Responsibility for different steps in the documentation and shipping process depends on the terms of sale and the method of payment and collection.

1. Receive the foreign order under accepted terms

   NOTE: Consult with your banker and freight forwarder.

2. Begin organizing information for required export documents and export license applications
3. Evaluate modes of transportation

   EXAMPLE: Air, ocean, air express, inland freight, intermodal

4. Prepare goods for shipping

   EXAMPLE: Marking/labeling, packing, consolidating/containerizing, insuring

5. Complete and forward required export documents
6. Transport goods to U.S. port of export
7. Transfer goods to carrier
8. Ship goods and forward appropriate export documents
9. Unload goods at foreign port
10. Clear customs
11. Transport goods from foreign port to intermediate and/or ultimate consignee

OBJECTIVE 3

Distinguish among functions of freight forwarders, NVOCCs and customs brokers.

NOTE: Services will vary.

Freight forwarders

- Advise on shipping fees, shipping documentation requirements, and export quotations
- Interpret foreign import rules and regulations and advise on U.S. export regulations relating to a shipment
- Contract with shippers to deliver the exporter's goods

- May provide cargo insurance under their own policy
- Perform or coordinate shipping-related services such as packing and labeling, consolidating and containerizing, warehousing, and insuring
- Prepare and/or review shipping documents
- May perform NVOCC and customs broker functions

NVOCCs

- Consolidate LCL shipments
- Responsible for intermodal cargo movement between inland points in the United States and the foreign port
- Prepare shipping documents covering intermodal cargo movement

Customs brokers—Enter and clear export goods through customs

NOTE: Many freight forwarders provide this service.

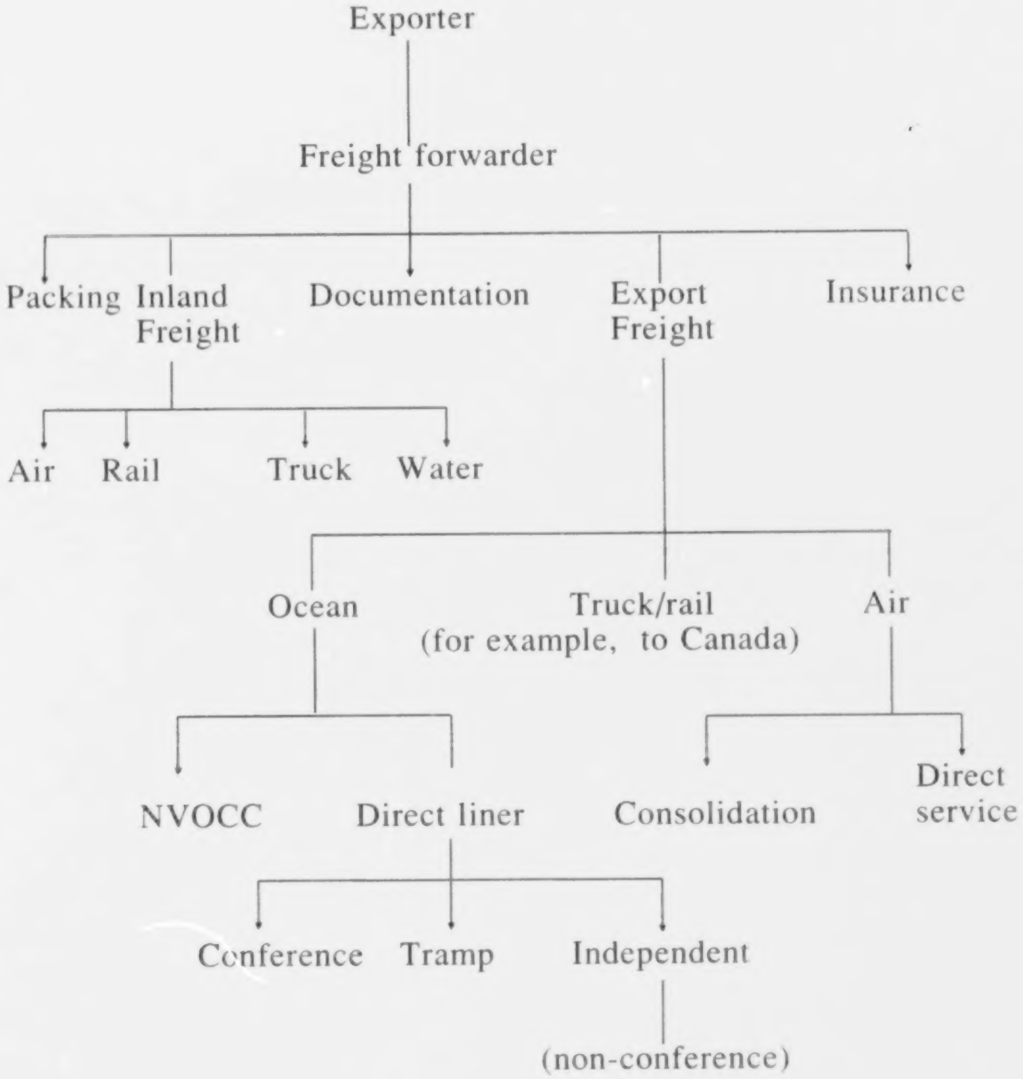

Exporter
Freight forwarder
Packing
Inland Freight
Documentation
Export Freight
Insurance
Air
Rail
Truck
Water
Ocean
Truck/rail (for example, to Canada)
Air
NVOCC
Direct liner
Consolidation
Direct service
Conference
Tramp
Independent
(non-conference)

FIGURE 14-1. Freight forwarder services. (Source: Bryan Edlich, Burlington Air Express, Tulsa, Oklahoma.)

FOR YOUR INFORMATION
Questions for evaluating freight forwarding services

Q Is the forwarder financially stable?

Q Does the forwarder offer a range of complementary services?

Q Does the forwarder have the facilities and capabilities to perform the needed services?

Q Is the forwarder experienced with the exporter's goods and/or industry?

Q What is the forwarder's general attitude?

EXAMPLE: Is the forwarder consistently responsive, innovative, etc?

Q How does the forwarder distribute its responsibilities: through agents or its own offices in the United States and foreign countries?

Q How extensive and sophisticated are the forwarder's networking/communications capabilities?

Q Does the management and staff have the required expertise?

Q What are the forwarder's fees and fee components?

Q Does the forwarder have specific geographical strengths and weaknesses?

Q Can client references be provided?

Q How does the freight forwarder compare with other forwarders on the services provided?

OBJECTIVE 4

Explain the purposes of export documentation.

Export documentation **facilitates and records the shipping process**. Export documents provide **evidence of compliance** with stated or negotiated terms between the seller and the buyer, and **transfer responsibility or possession**. Some documents **satisfy U.S. export regulations**, while others are required under the import regulations of the foreign country. For example, the Shipper's Export Declaration (SED) is used to control U.S. exports and to compile export statistics. The U.S. government requires some type of export license for most export shipments. Other countries have specific documentation requirements, such as requiring a consular invoice, commercial invoice or other documents. In addition, many export documents are used to **meet payment and collection terms**, such as documents required under a letter of credit. Examples include the commercial invoice, packing list, bills of lading and others.

OBJECTIVE 5

Match common export documents with their correct definitions.

Bills of lading—A contract between the owner of the goods and the carrier, prepared by the carrier or forwarder, which documents the shipment, serves as a receipt, and indicates the condition of the goods upon the carrier's acceptance; if written "to order," it serves as a negotiable instrument allowing the buyer to take possession of the goods

NOTE: The ocean bill of lading is a title document; the air waybill (AWB) is not.

Certificate of origin—A signed statement required by some countries certifying the origin of the export goods

Commercial invoice—A bill for the goods from the seller to the buyer

Consular invoice—A document required by some countries for identifying and controlling goods shipped to that country

Dock/warehouse receipt—Documents used to transfer accountability when the export goods are delivered to the export carrier and accepted by the carrier at its storage warehouse or port of export; most exit terminals require these documents before they will accept the goods

Export license—A permit to ship a commodity from the United States to a foreign destination, required by the U.S. Government for most export shipments and often requiring supporting documents

NOTE: You should check the license requirements for your goods early. Some licenses require a written application with or without supporting documents.

Inspection certificate—Occasionally required by the country of the foreign buyer and completed by an independent testing firm, certifying that the goods being shipped conform to the terms of the order, thereby protecting the buyer against fraud or error

Insurance certificate—A negotiable instrument required by the shipper's insurance company, stating the type and amount of insurance coverage provided by the seller

NOTE: The insurance certificate is an accountable form: it must be changed by the company issuing it.

Letter of credit—A document issued by the buyer's bank that allows the seller to draw a specific sum of money under specific terms

NOTE: See Unit 13.

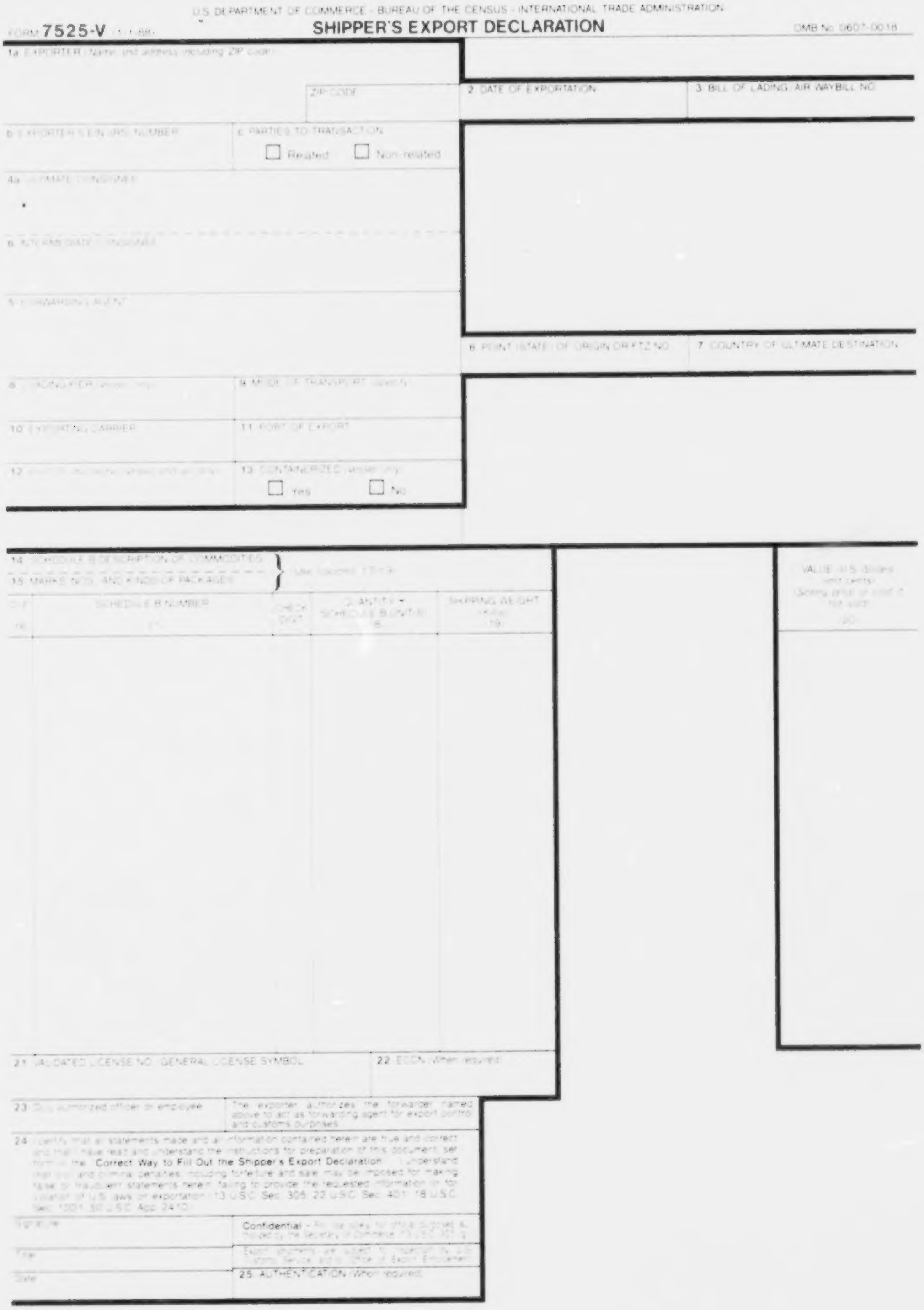
Packing list—An itemized list describing the contents of each package in a shipment, used in determining the total weight and volume of a shipment and for verifying the cargo (by the shipper or forwarder, and by U.S. and foreign customs officials)

NOTE: Common information includes shipper, carrier, and consignee, type of package, weights and dimensions, serial numbers, and product description.

Pro forma invoice—An export price quotation in the form of an invoice, including information about the type and quantity of export goods to be shipped, their value, cost of the transaction under specific terms of sale, and other specifications

NOTE: See Unit 11.

Shipper's Export Declaration (SED)—A document prepared by the exporter or forwarder and required by the U.S. Department of Commerce for shipments over $1,500.00 ($500.00 by mail) or for shipments requiring a validated export license; used to control exports and to compile U.S. export statistics


U.S. DEPARTMENT OF COMMERCE - BUREAU OF THE CENSUS - INTERNATIONAL TRADE ADMINISTRATION

FORM **7525-V** (1-1-88)

SHIPPER'S EXPORT DECLARATION

OMB No. 0607-0018

1a EXPORTER (Name and address including ZIP code)

ZIP CODE

2 DATE OF EXPORTATION

3 BILL OF LADING/AIR WAYBILL NO.

b EXPORTER'S EIN (IRS) NUMBER

c PARTIES TO TRANSACTION ☐ Related ☐ Non-related

4a ULTIMATE CONSIGNEE

b INTERMEDIATE CONSIGNEE

5 FORWARDING AGENT

6 POINT (STATE) OF ORIGIN OR FTZ NO.

7 COUNTRY OF ULTIMATE DESTINATION

8 LOADING PIER (Vessel only)

9 MODE OF TRANSPORT (Specify)

10 EXPORTING CARRIER

11 PORT OF EXPORT

12 PORT OF UNLOADING (Vessel and air only)

13 CONTAINERIZED (Vessel only) ☐ Yes ☐ No

14 SCHEDULE B DESCRIPTION OF COMMODITIES
15 MARKS, NOS., AND KINDS OF PACKAGES
} (Use columns 17-19)

D/F (16)	SCHEDULE B NUMBER (17)	CHECK DIGIT	QUANTITY — SCHEDULE B UNIT(S) (18)	SHIPPING WEIGHT (Kilos) (19)	VALUE (U.S. dollars, omit cents) (Selling price or cost if not sold) (20)

21 VALIDATED LICENSE NO./GENERAL LICENSE SYMBOL

22 ECCN (When required)

23 Duly authorized officer or employee

The exporter authorizes the forwarder named above to act as forwarding agent for export control and customs purposes.

24 I certify that all statements made and all information contained herein are true and correct and that I have read and understand the instructions for preparation of this document, set forth in the "**Correct Way to Fill Out the Shipper's Export Declaration**." I understand that civil and criminal penalties, including forfeiture and sale, may be imposed for making false or fraudulent statements herein, failing to provide the requested information or for violation of U.S. laws on exportation (13 U.S.C. Sec. 305; 22 U.S.C. Sec. 401; 18 U.S.C. Sec. 1001; 50 U.S.C. App. 2410).

Signature

Confidential - For use solely for official purposes authorized by the Secretary of Commerce (13 U.S.C. 301 (g)).

Title

Export shipments are subject to inspection by U.S. Customs Service and/or Office of Export Enforcement.

Date

25 AUTHENTICATION (When required)

FIGURE 14-2. Shipper's Export Declaration.

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Shipper's Letter of Instruction—A document from the manufacturer to the freight forwarder that states all parties to the export transaction and the functions to be performed by each; also instructs the forwarder to whom to send required documents

OBJECTIVE 6

State basic guidelines for preparing export documents.

- Know the country-specific documents required for each shipment.

- Maintain an updated file of required information for appropriate export documents.

  NOTE: You should be able to access required information for export documents, whether you prepare your own documents or use the documentation services of a freight forwarder.

- Provide complete and consistent information on all required documents.

  NOTE: Incomplete or inconsistent information on export documents can delay or prevent the export of the U.S. goods or payment for the goods, or result in the seizure of the goods by U.S. or foreign customs officials.

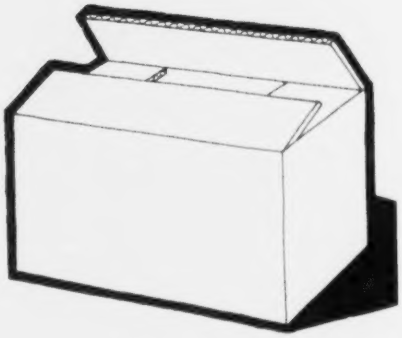
- Consider the documentation services of a freight forwarder.

  NOTE: Freight forwarders charge a reasonable fee for documentation services (relative to the value of the shipment). Their expertise in preparing export documents can help exporters avoid costly errors.

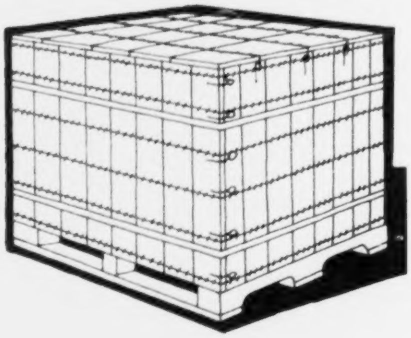
OBJECTIVE 7

State the limits of a freight forwarder's liability.

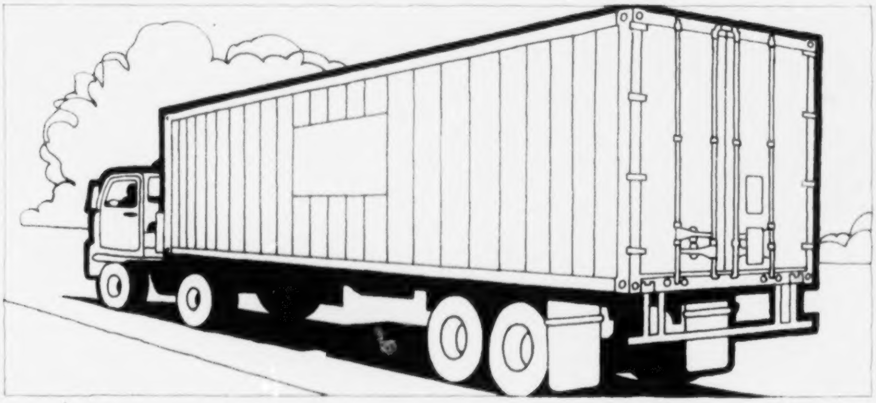
$500.00 PER PACKAGE ("SINGLE MOVEABLE PIECE")



1. A "package" can be a single carton of your goods, or



2. a "package" can be a skid loaded with your goods, or



3. a "package" can be an entire intermodal container that includes your goods and all others in the container.

IMPORTANT: The freight forwarder's limited liability helps establish the need for additional insurance coverage.

SOURCE: Diagrams from *Ports of the World—A Guide to Cargo Loss Control*, Twelfth Edition, Insurance Company of North America.

OBJECTIVE 8

Match modes of transportation with their advantages and disadvantages.

OCEAN FREIGHT FORWARDING

*A = Advantage; D = Disadvantage

A Is generally less expensive for larger shipments

A Is more conducive to large shipments

A May specialize by region or commodity

A Allows for containerization of larger shipments

A Is more practical for larger products and products not requiring special handling

D Requires more time

D Increases the potential for loss to damage, deterioration, and theft due to time required, potentially-damaging handling methods, and vessel movements

NOTE: Handling facilities and methods can vary overseas.

D Can delay unloading and delivery if ports are congested

D Often requires greater documentation

AIR FREIGHT FORWARDING

*A = Advantage; D = Disadvantage

A Is faster

A Offers more-direct access for inland buyers

A Requires less-expensive insurance

A Can reduce warehousing costs

A Reduces packing requirements

A Limits the potential loss from handling methods or theft

A Is more practical for perishable goods, expensive goods, and goods that quickly lose their value over time

A May specialize by countries or commodities

D Is generally more expensive (especially for large shipments)

D Is generally less feasible for large shipments

AIR EXPRESS CARRIERS

*A = Advantage; D = Disadvantage

A May quote one rate, allowing the exporter to pay a single rate for door-to-door shipping

A Offers one-carrier control of the goods door-to-door

D Have valuation restrictions

D Usually have size and weight limitations

D May have some commodity restrictions

OBJECTIVE 9 **List common elements of shipping costs.**

$ Export packing

$ Inland freight

$ Port charges

$ Loading/unloading

$ Ocean/air freight

$ Insurance

$ Handling

$ Documentation

NOTE: Shipping costs will vary depending on the mode of transportation, terms of sale, and other factors. Freight rates are based on the commodity, destination, weight and volume. In addition, a harbor maintenance charge is assessed on ocean shipments, based on quarterly SED values (4/10 of 1.0% of the combined SED values in a calendar quarter).

OBJECTIVE 10 **Discuss the movement of dangerous goods.**

Dangerous goods include a variety of goods from explosives to some household items. Dangerous goods require special packing, marking, labeling, documentation and handling. If you fail to observe the requirements for moving dangerous goods, you can be subject to heavy civil and criminal penalties. These penalties could ruin your business!

The regulations for shipping dangerous goods to foreign destinations are different than the regulations for domestic shipments. (Consult the regulations or a freight forwarder.)

FOR YOUR INFORMATION

Questions for evaluating modes of transportation

Q Is transshipment needed?

Q What are the shipping charges?

Q Can the mode meet the buyer's documentation requirements?

NOTE: These requirements can be negotiated between the buyer and the seller.

Q How long will the goods be in-transit?

Q Must the goods be routed?

Q Will the carrier be able to meet your delivery deadlines?

Q What are the insurance costs?

Q Does the size and value of the shipment justify the chosen mode of transportation?

Q Will the goods be adequately protected against damage and theft?

Q Are port and carrier facilities suitable to the handling requirements of the goods?

Q Can intermodal containers be used?

Q What documents are required?

Q Are inland buyers at the foreign destination accessible through the chosen mode(s) of transportation?

EXPORT DOCUMENTS DATA SHEET

DIRECTIONS

- Use this Supplement to record required data before preparing export documents.

  NOTE: This Supplement does not include all of the data required to complete different export documents. However, it can be a useful reference for completing documents or for providing information to a freight forwarder.

- Refer to your completed Supplement as needed.

EXPORT DOCUMENTS DATA SHEET

Product: ______________________________

COMPANY/MANUFACTURER DATA

____
(Name)

____
(Street address)

____
(City) (State) (ZIP)

______________________________ ______________________________
(Area Code) (Phone) (Name of in-house contact person)

______________________________ ______________________________
(FAX/Telex Number) (Title of in-house contact person)

INTERMEDIATE CONSIGNEE DATA

____
(Name)

____
(Street address)

____
(City) (Country)

______________________________ ______________________________
(Phone) (Name of contact person)

______________________________ ______________________________
(FAX/Telex Number) (Title of contact person)

EXPORT DOCUMENTS DATA SHEET

ULTIMATE CONSIGNEE DATA

(Name)

(Street address)

(City) (Country)

(Phone) (Name of contact person)

(FAX/Telex Number) (Title of contact person)

END-USER DATA

(Name)

(Street address)

(City) (Country)

(Phone) (Name of contact person)

(FAX/Telex Number) (Title of contact person)

EXPORT DOCUMENTS DATA SHEET

FREIGHT FORWARDER/FORWARDING AGENT

____
(Name)

____
(Street address)

____
(City) (State) (ZIP)

______________________ ______________________
(Area Code) (Phone) (Name of contact person)

______________________ ______________________
(FAX/Telex Number) (Title of contact person)

PRODUCT/PACKAGE DATA

Type of package: _____Box _____Barrel/drum _____Other (state)

____

Quantity (number and units): ______________________________

Dimensions and volume (cubic feet and cubic meters):

____

____

Shipping weight (in pounds and kilos):

____

Commodity Description: ______________________________

____

____

____

EXPORT DOCUMENTS DATA SHEET

End-use Description: ____________________

____

____

Value of Shipment (in U.S. Dollars): ____________________
(per UNIT)

____
(transaction TOTAL)

Terms of sale (CIF, FOB, etc.): ____________________

General License Symbol or Validated License Number: ____________________

____

ECCN: ____________________

Country of Ultimate Destination: ____________________

Exporting Carrier (Name): ____________________

Port of Export: ____________________

Foreign Port of Unloading: ____________________

Marks, symbols, numbers or other identification for export packing/handling:

SHIPPER'S DECLARATION FOR DANGEROUS GOODS

SHIPPER'S DECLARATION FOR DANGEROUS GOODS

Shipper

Air Waybill No

Page of Pages

Shipper's Reference Number
(optional)

Consignee

Two completed and signed copies of this Declaration must be handed to the operator

WARNING

Failure to comply in all respects with the applicable Dangerous Goods Regulations may be in breach of the applicable law, subject to legal penalties. This Declaration must not, in any circumstances, be completed and/or signed by a consolidator, a forwarder or an IATA cargo agent.

TRANSPORT DETAILS

This shipment is within the limitations prescribed for
(delete non-applicable)

PASSENGER AND CARGO AIRCRAFT	CARGO AIRCRAFT ONLY

Airport of Departure

Airport of Destination

Shipment type *(delete non-applicable)*

NON-RADIOACTIVE	RADIOACTIVE

NATURE AND QUANTITY OF DANGEROUS GOODS *(see sub-Section 8.1 of IATA Dangerous Goods Regulations)*

Dangerous Goods Identification						
Proper Shipping Name	Class or Divi-sion	UN or ID No.	Subsi-diary Risk	Quantity and type of packing	Packing Inst.	Authorization

Additional Handling Information

I hereby declare that the contents of this consignment are fully and accurately described above by proper shipping name and are classified, packed, marked and labelled, and are in all respects in the proper condition for transport by air according to the applicable International and National Government Regulations.

Name/Title of Signatory

Place and Date

Signature
(see warning above)

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ASSIGNMENT 1 — EXPORT DOCUMENTS AND THE MOVEMENT OF GOODS — 14

Name ______________________________ Score _________

OBJECTIVE 11

Compute metric equivalents.

INTRODUCTION

As a potential U.S. exporter, you must be familiar with the metric system as it applies to your goods for export. Knowledge of the metric system is important to you for two main reasons. First, the Omnibus Trade and Competitiveness Act of 1988 requires industry and government to use metric units in export (and import) documentation. Second, the global market uses the metric system. To be competitive in foreign markets, you must use the standards of those markets, including the metric system. By integrating the metric system into your operations, you will be creating an extra marketing tool for sales in foreign markets.

DIRECTIONS

- Study the conversion table on the following page.

  NOTE: This Assignment covers some of the metric equivalents most often needed for exporting.

- Solve the problems at the end of this Assignment.

CONVERTING CUSTOMARY TO METRIC

IF YOU KNOW	MULTIPLY BY	TO FIND
inches	2.54	centimeters
inches	25.4	millimeters
feet	0.304	meters
cubic feet	0.028	cubic meters
cubic inches	0.016	liters
quarts	0.946	liters
gallons	3.785	liters
pounds	0.453	kilograms

CONVERTING AMONG METRIC UNITS

IF YOU KNOW	MULTIPLY BY	TO FIND
centimeters	0.01	meters
millimeters	0.001	meters
meters	100	centimeters
grams	0.001	kilograms
kilograms	1000	grams

1. What are the dimensions (height, width, length) in millimeters (mm) of a package that measures 25" X 25" X 36"? In meters (m)?

   ____

2. A 55-gallon drum holds how many liters?

   ____

3. If the weight of an order is 1,560 pounds, what is the weight in kilograms (kg)? In grams (g)?

   ____

4. If a shipment contains 50 cartons weighing 27 pounds each, what is the weight of the total shipment in kilograms (kg)?

   ____

5. What are the dimensions in centimeters (cm) of a pallet that measures 45" X 45"?

   ____

6. If a list of container specifications identifies an intermodal container that is 13.582 meters long, 2.347 meters wide and 2.690 meters high, what is the cubic capacity of the container? Your answer must include the correct metric unit. (HINT: Volume = L X W X H.)

   ____

7. Could a shipment of 50 cartons fit into the container in question 6, if each carton is 25" X 25" X 25"? (HINT: First, find the volume of each carton in meters.)

   ____

EXPORT DOCUMENTS AND THE MOVEMENT OF GOODS

ASSIGNMENT 1

1. 635 mm X 635 mm X 914.4 mm
   .635 m X .635 m X .914 m
2. 208.18 liters
3. 706.68 kg and 706680 g
4. 611.55 kg
5. 114.3 cm X 114.3 cm
6. 85.75 cubic meters
7. Yes, because the volume of the 50 cartons is 12.80 cubic meters.

   NOTE: Explain to participants that they may not be able to accurately determine whether a given shipment will fit into a container of specified dimensions, based simply on the volume of the shipment and the container. Other considerations, such as the "dead space" needed for securely packing goods, are important. Exporters should consult their freight forwarder for assistance.

Name ______________________________ Score _________

OBJECTIVE 1

Match terms associated with the movement of goods with their correct definitions. Write the correct letter in each blank.

____ 1. A cause of loss where small amounts of a shipment are stolen

____ 2. The transporter of the export shipment on land, air or ocean

____ 3. The bank, forwarding agent, or other intermediary (if any) acting in a foreign country as an agent for the exporter, the buyer, or the ultimate consignee, to effect the delivery of the export goods to the ultimate consignee

____ 4. Transporting a shipment of export goods from the manufacturer's premises to the foreign buyer's location

____ 5. Packing export goods in sealable metal containers for shipping, including intermodal cargo movement

____ 6. The documents that accompany the movement of an export shipment

____ 7. The foreign party that will actually receive the export goods for their designated end-use

____ 8. An indirect common carrier that is licensed by the Federal Maritime Commission to transport sea freight under its own rate structure and that does not own its own vessels

____ 9. A trade and service organization for airlines having international routes; functions include classifying containers and working for uniform rules and rates

a. Carrier
b. Clearing agent
c. Conference carrier
d. Consolidator
e. Containerize
f. Door-to-Door
g. Export documentation
h. Federal Maritime Commission
i. Freight forwarder
j. IATA
k. Independent/nonconference carrier
l. Intermediate consignee
m. Intermodal cargo movement
n. LCL shipment
o. NVOCC
p. Pilferage
q. Port-to-Port

___10. A specialized firm acting as an agent for the exporter and international carriers in preparing export documents and contracting for shipment of the export goods

___11. An ocean carrier that does not belong to a conference, but which operates on a regular schedule and may offer lower rates on some shipments than conference carriers

___12. An ocean carrier that belongs to an association of carriers offering standardized shipping practices, common freight rates, and regularly-scheduled service between specific ports

___13. A vessel that carries mainly wheeled cargo, such as cars, trucks, trailers, machinery and others, which are loaded and unloaded by driving the cargo onto and off of the vessel via a ramp

___14. The use of different modes of transportation to move an export shipment, including inland freight such as by rail or by truck

___15. A shipment of export goods that is less than a full container load

___16. A specialized firm or service that groups several export shipments having the same destination, to obtain better pricing or service, with or without containerization

___17. An ocean carrier usually having no fixed routes, rates, or schedules, and often carrying a single bulk cargo between a loading port and a discharge port

___18. Transporting a shipment of export goods only for the shipping interval between the port of export and the foreign port

___19. Assists in clearing export shipments through customs; also called a "customs broker"

___20. Regulates ocean shipping

___21. Point-to-point transportation rates

r. Roll-On/Roll-Off (Ro/Ro) service

s. Tariff

t. Tramp service

u. Ultimate consignee

OBJECTIVE 2

Identify in order major steps in the shipping documentation process. Write the correct numbers 1-11 in the blanks.

___ Receive the foreign order under accepted terms

___ Evaluate modes of transportation

___ Prepare goods for shipping

___ Transport goods to U.S. port of export

___ Begin organizing information for required export documents and export license applications

___ Transfer goods to carrier

___ Complete and forward required export documents

___ Ship goods and forward appropriate export documents

___ Transport goods from foreign port to intermediate and/or ultimate consignee

___ Clear customs

___ Unload goods at foreign port

OBJECTIVE 3

Distinguish among functions of freight forwarders, NVOCCs and customs brokers. Write the correct letter in each blank.

____ 1. Enter and clear export goods through customs

____ 2. Interpret foreign import rules and regulations and advise on U.S. export regulations relating to a shipment

____ 3. Contract with shippers to deliver the exporter's goods

____ 4. Consolidate LCL shipments

____ 5. Perform or coordinate shipping-related services such as packing and labeling, consolidating and containerizing, warehousing, and insuring

____ 6. Prepare and/or review shipping documents

____ 7. May perform NVOCC and customs broker functions

a. Freight forwarders

b. NVOCCs

c. Customs brokers

____8. Responsible for intermodal cargo movement between inland points in the United States and the foreign port

____9. Advise on shipping fees, shipping documentation requirements, and export quotations

___10. Prepare shipping documents covering intermodal cargo movement

___11. May provide cargo insurance under their own policy

OBJECTIVE 4 **Explain the purposes of export documentation.** Include as many main points as possible.

____

____

____

____

____

____

OBJECTIVE 5 **Match common export documents with their correct definitions.** Write the correct letter in each blank.

____1. A document required by some countries for identifying and controlling goods shipped to that country

____2. A signed statement required by some countries certifying the origin of the export goods

____3. An itemized list describing the contents of each package in a shipment, used in determining the total weight and volume of a shipment and for verifying the cargo (by the shipper or forwarder, and by U.S. and foreign customs officials)

____4. Documents used to transfer accountability when the export goods are delivered to the export carrier and accepted by the carrier at its storage warehouse or port of export; most exit terminals require these documents before they will accept the goods

a. Bills of lading

b. Certificate of origin

c. Commercial invoice

d. Consular invoice

e. Dock/ warehouse receipt

f. Export license

g. Inspection certificate

h. Insurance certificate

____ 5. A document prepared by the exporter or forwarder and required by the U.S. Department of Commerce for shipments over $1,500.00 ($500.00 by mail) or for shipments requiring a validated export license; used to control exports and to compile U.S. export statistics

____ 6. A negotiable instrument required by the shipper's insurance company, stating the type and amount of insurance coverage provided by the seller

____ 7. A permit to ship a commodity from the United States to a foreign destination, required by the U.S. Government for most export shipments and often requiring supporting documents

___ 8. A contract between the owner of the goods and the carrier, prepared by the carrier or forwarder, which documents the shipment, serves as a receipt, and indicates the condition of the goods upon the carrier's acceptance; if written "to order," it serves as a negotiable instrument allowing the buyer to take possession of the goods

____ 9. Occasionally required by the country of the foreign buyer and completed by an independent testing firm, certifying that the goods being shipped conform to the terms of the order, thereby protecting the buyer against fraud or error

___ 10. A bill for the goods from the seller to the buyer

___ 11. An export price quotation in the form of an invoice, including information about the type and quantity of export goods to be shipped, their value, cost of the transaction under specific terms of sale, and other specifications

i. Letter of credit

j. Packing list

k. Pro forma invoice

l. Shipper's Export Declaration (SED)

m. Shipper's Letter of Instruction

___12. A document from the manufacturer to the freight forwarder that states all parties to the export transaction and the functions to be performed by each; also instructs the forwarder to whom to send required documents

___13. A document issued by the buyer's bank that allows the seller to draw a specific sum of money under specific terms

OBJECTIVE 6

State basic guidelines for preparing export documents. State three (3) guidelines.

1. ____
____

2. ____
____

3. ____
____

OBJECTIVE 7

State the limits of a freight forwarder's liability.

____

OBJECTIVE 8

Match modes of transportation with their advantages and disadvantages. Write the correct letter in each blank.

____1. Is generally less expensive for larger shipments

____2. May quote one rate, allowing the exporter to pay a single rate for door-to-door shipping

____3. Allows for containerization of larger shipments

____4. Requires more time

____5. Is more practical for perishable goods, expensive goods, and goods that quickly lose their value over time

____6. Is faster

a. Ocean freight forwarding

b. Air freight forwarding

c. Air express carriers

____ 7. Is generally more expensive (especially for large shipments)

____ 8. Requires less-expensive insurance

____ 9. Is more practical for larger products and products not requiring special handling

___ 10. Often requires greater documentation

___ 11. Offers more-direct access for inland buyers

___ 12. Increases the potential for loss to damage, deterioration, and theft due to time required, potentially-damaging handling methods, and vessel movements

___ 13. Can reduce warehousing costs

___ 14. Is more conducive to large shipments

___ 15. Can delay unloading and delivery if ports are congested

___ 16. Reduces packing requirements

___ 17. Limits the potential loss from handling methods or theft

___ 18. Is generally less feasible for large shipments

___ 19. Offers one-carrier control of the goods door-to-door

___ 20. Usually have size and weight limitations

OBJECTIVE 9

List common elements of shipping costs. List five (5) common elements.

1. ____

2. ____

3. ____

4. ____

5. ____

OBJECTIVE 10 **Discuss the movement of dangerous goods.**

NOTICE The objective listed below is not part of the Quick Check.

OBJECTIVE 11 **Compute metric equivalents.** SCORE ________

QUICK CHECK ANSWERS

EXPORT DOCUMENTS AND THE MOVEMENT OF GOODS

14

OBJECTIVE 1

1. p
2. a
3. l
4. f
5. e
6. g
7. u
8. o
9. j
10. i
11. k
12. c
13. r
14. m
15. n
16. d
17. t
18. q
19. b
20. h
21. s

OBJECTIVE 2

1 Receive the foreign order under accepted terms

3 Evaluate modes of transportation

4 Prepare goods for shipping

6 Transport goods to U.S. port of export

2 Begin organizing information for required export documents and export license applications

7 Transfer goods to carrier

5 Complete and forward required export documents

8 Ship goods and forward appropriate export documents

11 Transport goods from foreign port to intermediate and/or ultimate consignee

10 Clear customs

9 Unload goods at foreign port

OBJECTIVE 3

1. c
2. a
3. a
4. b
5. a
6. a
7. a
8. b
9. a
10. b
11. a

OBJECTIVE 4

Export documentation facilitates and records the shipping process. Export documents provide evidence of compliance with stated or negotiated terms between the seller and the buyer, and transfer responsibility or possession. Some documents satisfy U.S. export regulations, while others are required under the import regulations of the foreign country. For example, the Shipper's Export Declaration (SED) is used to control U.S. exports and to compile export statistics. The U.S. government requires some type of export license for most export shipments. Other countries have specific documentation requirements, such as requiring a consular invoice, commercial invoice or other documents. In addition, many export documents are used to meet payment and collection terms, such as documents required under a letter of credit. Examples include the commercial invoice, packing list, bills of lading and others.

OBJECTIVE 5

1. d
2. b
3. j
4. e
5. l
6. h
7. f
8. a
9. g
10. c
11. k
12. m
13. i

OBJECTIVE 6

Any three of the following:

- Know the country-specific documents required for each shipment.
- Maintain an updated file of required information for appropriate export documents.

- Provide complete and consistent information on all required documents.
- Consider the documentation services of a freight forwarder.

OBJECTIVE 7

$500.00 per package ("single moveable piece")

OBJECTIVE 8

1. a
2. c
3. a
4. a
5. b
6. b
7. b
8. b
9. a
10. a
11. b
12. a
13. b
14. a
15. a
16. b
17. b
18. b
19. c
20. c

OBJECTIVE 9

Any five of the following:

$ Export packing

$ Inland freight

$ Port charges

$ Loading/unloading

$ Ocean/air freight

$ Insurance

$ Handling

$ Documentation

OBJECTIVE 10

Dangerous goods include a variety of goods from explosives to some household items. Dangerous goods require special packing, marking, labeling, documentation and handling. If you fail to observe the requirements for moving dangerous goods, you can be subject to heavy civil and criminal penalties. These penalties could ruin your business!

The regulations for shipping dangerous goods to foreign destinations are different than the regulations for domestic shipments.

UNIT OBJECTIVES

EXPORT PACKING

15

INTRODUCTION

Proper packing of goods for export will help to protect the goods during all phases of the shipping process, from the manufacturer's door to the foreign end-user. Export packing can reduce the causes of damage or loss to goods from handling, movement, water, theft and pilferage, and other hazards. The method of packing also facilitates the handling and transportation of the goods and communicates important information to persons involved in the shipping process. (In contrast, product **packaging** communicates information to the end-user.) Proper export packing must also meet the requirements of the specific goods and the chosen modes of transportation.

UNIT OBJECTIVE

After completing this unit, you should be familiar with the importance and methods of packing goods for export. You should also be able to identify common causes of loss for specific categories. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you should be able to

1. Explain the importance of export packing.
2. Identify common causes of loss for specific categories.
3. Name methods of export packing.
4. Identify advantages and disadvantages of intermodal containers.
5. Explain reasons for marking/labeling.
6. List common markings on cartons/containers for export.
7. State basic guidelines for marking/labeling.

PREPARATION

- Order additional materials to supplement this unit.

  Publications

  - *A Basic Guide to Exporting* (Current edition). Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; or contact Department of Commerce district offices.
  - *Oklahoma Export Services Directory*. Available from the Center for International Trade Development, Hall of Fame and Washington, Stillwater, Oklahoma 74078-0390.
  - *Ports of the World: A Guide to Cargo Loss Control* (Current edition). Available from CIGNA, P.O. Box 7728, Philadelphia, PA 19101. May also be available from many insurance companies.

- Review the unit and plan your presentation:
  - Estimate the amount of material that can be covered in each class session.
  - Plan for appropriate Assignments.
  - Identify objectives that you can supplement with other resources.
  - Invite guest speakers in advance.

    EXAMPLE: Area exporters, freight forwarders, and export packers/shippers

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities.

DELIVERY

Objective 1

- Lead a group discussion of the differences between export packaging and export packing. Compare the purposes of the package and the packaging. Emphasize the importance of proper export packing to a successful shipment.

- Invite a freight forwarder to discuss export packing for different modes of transportation and for different types of export goods.

Objectives 2-4

- Invite a freight forwarder and/or insurance broker to discuss causes of loss.

- Show photographs or drawings of each method of export packing, if possible.

- Obtain copies of *Ports of the World—A Guide to Cargo Loss Control.*

Objectives 5-6

- Describe a shipment scenario, including the type of goods, the U.S. port of export, the foreign destination, the metric weight of the shipment, and the facilities in the U.S. and foreign port for handling the goods. Then, ask participants to explain how they would pack the goods for shipment and how they would mark/label the goods. Be sure that participants give specific reasons for their answers.

  NOTE: This activity can be done as a group discussion or as a handout including the scenario, questions, and space for answers. However, you must provide enough relevant and other information to completely describe the situation. (A freight forwarder can be a valuable resource for this activity.)

Objective 7

- Explain why each guideline is important.

EVALUATION

- Give the Quick Check soon after presenting the unit.

- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- "Fundamentals of Exporting" and "Shipping and Documentation" workshops, offered by Oklahoma International Export Services (OIES), a joint program of the Oklahoma Department of Commerce and the U.S. and Foreign Commercial Service of the U.S. Department of Commerce.

- *Ports of the World—A Guide to Cargo Loss Control*, Twelfth Edition, Insurance Company of North America.

SPECIFIC OBJECTIVES

EXPORT PACKING

15

OBJECTIVE 1

Explain the importance of export packing.

Proper packing of goods for export will help to **protect the goods** during all phases of the shipping process, from the manufacturer's door to the foreign end-user. Export packing can **reduce the causes of damage or loss** to goods from handling, movement, water, theft and pilferage, and other hazards. The method of packing can also **facilitate the handling and transportation** of the goods. For example, the use of intermodal containers reduces the amount of handling needed to move individual packages and can allow the goods to be consolidated or moved door-to-door or port-to-port. Export packing must also **communicate important information** to persons involved in the shipping process, through internationally-recognized pictorial symbols for handling and special precautions, shipper's marks, the country of origin, weight information, the carton/container number, and other markings. (In contrast, product packaging communicates information to the end-user.) Export packing must identify the goods for shipping and handling purposes without identifying the contents of the shipment for thieves.

Proper export packing must also **meet the requirements of the shipping process**, such as available shipping space, available handling facilities in port, loss prevention, buyer's requirements, and other factors.

OBJECTIVE 2

Identify common causes of loss for specific categories.

HANDLING

- Variations in handling methods and facilities
- Inexperienced handlers
- Stress on packages from lifting, lowering, pushing, dropping and otherwise handling the goods

CONTACT

- Contact with leaking packages/containers
- Impact from vehicle loading docks, railway coupling activities, or wave action against containers above deck

- Contact between packages due to starting and stopping (on land); rolling, pitching, and surging (on water); and rough or uneven surfaces (on land)

  EXAMPLE: See Figure 15-1.

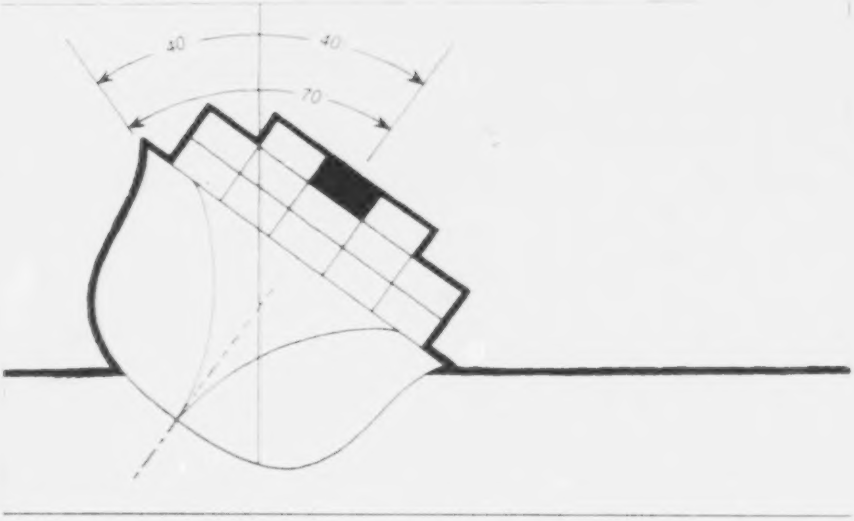

FIGURE 15-1. The dark container might travel 70 feet with each complete roll. (Source: *Ports of the World—A Guide to Cargo Loss Control*, Twelfth Edition, Insurance Company of North America.)

WATER

- Contact with fresh water and/or salt water due to poor packing, poor weather conditions during loading or unloading, inadequate covered storage facilities in port, or flooding
- Condensation in storage areas and cargo holds

THEFT AND NON-DELIVERY

- Poorly-packaged or improperly-labeled goods
- Exposure of goods to thieves before, during and after handling
- Inadequate security at port facilities

OTHER

- Contamination of goods from odors or spills from other cargo
- Fire damage

FOR YOUR INFORMATION
Common questions for evaluating loss control

NOTE: Consult with a freight forwarder, carrier, insurance provider and/or the buyer for specific packing requirements.

Q What modes of transportation—truck, rail, ship, aircraft—will be involved in the shipping process?

Q Are the goods packed for the **most hazardous part** of the trip?

Q Are the goods packed within the capacity of the box or other container?

Q How much protection can be provided against handling and storage hazards, contact hazards, water hazards, theft and non-delivery, and other possible hazards?

Q Does the method of packing and the packing material facilitate handling of the goods?

EXAMPLE: Goods that are packed into the largest possible unit, wrapped, strapped and loaded onto a pallet can resist handling and storage hazards better than the many individual packages handled separately.

Q Is the weight of the shipment distributed properly to reduce contact hazards?

Q What handling and/or precautionary marks and symbols are needed?

OBJECTIVE 3 **Name methods of export packing.**

NOTE: Methods marked with an asterisk (*) can be used in addition to packing the goods in cardboard cartons. Shrink-wrap can always be used.

Cardboard cartons—Packing export goods in reinforced cardboard cartons that resist crushing at specified and tested weight levels

Intermodal containers*—Shipping export goods in sealable metal containers designed for cargo movement by multiple modes, generally surface and sea freight

Unitize/palletize*—Multiple cartons secured to a skid or pallet for handling and shipping

Open crates—Packing export goods into specially-built crates to accomodate goods with unusual space or other requirements

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Shrink-wrap*—Encasing export goods in protective plastic wrapping that can hold and protect the goods during shipping

OBJECTIVE 4

Identify advantages and disadvantages of intermodal containers.

*A = Advantage; D = Disadvantage

A Provide tighter control over shipments

A Facilitate consistent handling

A Reduce freight costs if exporter's shipment is consolidated with other shipments within a container

A Can compete effectively for available shipping space

NOTE: Shipping space may be available for a container load if not for a smaller load, especially with air transportation.

A Help control damage or theft during shipping

NOTE: Containerizing export goods does not guarantee protection from water damage. Condensation occurs inside intermodal containers and can occur on the goods also. Old containers can also leak.

A Might reduce the need for unitizing/palletizing export goods

D May involve fees for delivering and placing an empty container at the manufacturer's facility

D Include a built-in drayage cost (the cost of moving the container from a port to the manufacturer)

D Might not be appropriate for very small shipments

NOTE: Consolidation of shipments can overcome this disadvantage.

OBJECTIVE 5

Explain reasons for marking/labeling.

Marks and labels help to move the export goods to the ultimate consignee. Some marks are required in order to **meet shipping requirements and regulations**. Others can also help to **assure proper handling** of the goods by identifying special handling requirements and warning of improper handling. For example, internationally-recognized pictorial symbols can help assure consistent handling of export goods, especially in countries where many handlers cannot read.

In addition to meeting shipping requirements and regulations, marks and labels can **help prevent theft** by hiding the identity of the package's contents. Promotional or descriptive information on boxes or other shipping containers could attract the attention of thieves. At the foreign port, marks and labels are also important to **identify the shipment for receivers and for customs and other authorities**.

OBJECTIVE 6

List common markings on cartons/containers for export.

- Handling marks

  EXAMPLE:

  - Pictorial symbols
  - Cautionary marks
  - Hazardous/dangerous materials labels
  - Handling instructions
- Port of export (United States)
- Exporter's and/or shipper's mark
- Consignee's mark, destination, order number
- Port of entry

  EXAMPLE: "VIA HAMBURG"
- Country of origin

  EXAMPLE: "MADE IN U.S.A"
- Weight markings (gross and net, customary and metric)
- Carton/container number and dimensions

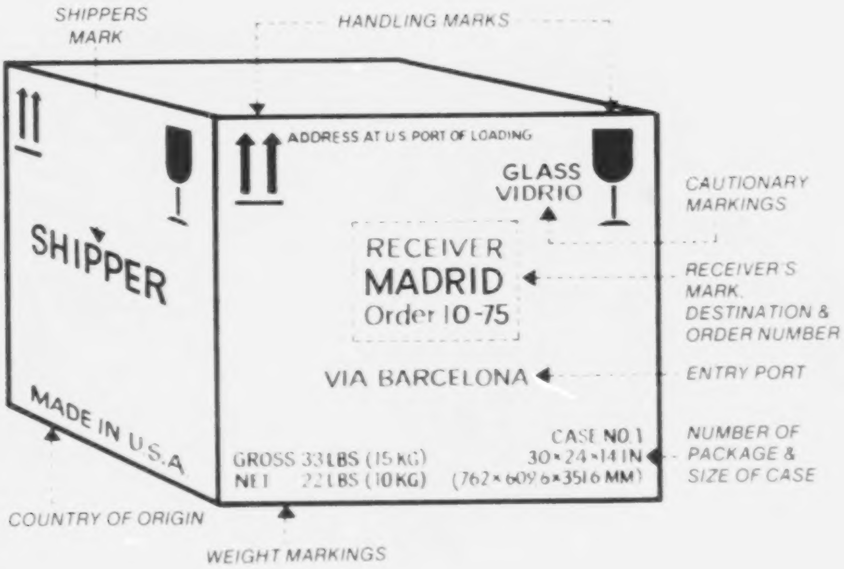

SHIPPERS MARK
HANDLING MARKS
ADDRESS AT U.S. PORT OF LOADING
GLASS
VIDRIO
CAUTIONARY MARKINGS
SHIPPER
RECEIVER
MADRID
Order 10-75
RECEIVER'S MARK, DESTINATION & ORDER NUMBER
VIA BARCELONA
ENTRY PORT
MADE IN U.S.A
CASE NO.1
30×24×14 IN
(762×609.6×351.6 MM)
NUMBER OF PACKAGE & SIZE OF CASE
GROSS 33 LBS (15 KG)
NET 22 LBS (10 KG)
COUNTRY OF ORIGIN
WEIGHT MARKINGS

FIGURE 15-2. Example of a carton/container marked for shipment. (Source: Diagram from *Ports of the World—A Guide to Cargo Loss Control*, Twelfth Edition, Insurance Company of North America.) This example does not include dangerous goods. The foreign buyer usually specifies required marks. These marks must be accessible.

OBJECTIVE 7

State basic guidelines for marking/labeling.

- Satisfy any requirements for marking/labeling.

  NOTE: Get qualified advice about regulations that may apply.

- Mark or stencil clearly and permanently on **at least** three sides.

  NOTE: Marks must be accessible. Use waterproof ink. Do not use tags, cards, crayon or other non-permanent methods of marking.

- Remove old markings completely.

  EXAMPLE: If you are re-using a carton or other container, be sure that the country of origin is correct for the current shipment, to help avoid problems and delays with customs and other authorities.

- Avoid identifying the contents by brand name or logo.

  EXAMPLE: You could use numbering or pictorial systems to identify contents. However, be sure to adjust your systems periodically to prevent them from becoming familiar to thieves.

- Use internationally-recognized pictorial symbols where needed or required.

  EXAMPLE: Handling requirements, cautions, hazards or hazardous materials labels

- Print special handling instructions or precautions in all appropriate languages.

QUICK CHECK

EXPORT PACKING

15

Name ______________________ Score __________

OBJECTIVE 1

Explain the importance of export packing. Include as many main points as possible.

OBJECTIVE 2

Identify common causes of loss for specific categories. For each scenario, name the category that could exist.

1. In the foreign port, the labor is unskilled and mechanical handling equipment is not available.

   ____

2. The ship rolls from side to side. In the process, containers on all decks travel about 60 feet with each roll.

   ____

3. The manufacturer has decided to use a tag to mark and label each box in a shipment to be transported by ship.

   ____

4. The contents of a poorly-packed carton leak within a consolidated shipment inside an intermodal container.

   ____

5. Because of a customs delay at the foreign port, the export goods remain beside the dock under open skies. Before the intermediate consignee is able to pick up the shipment, the weather has been poor and rain has repeatedly swept over the goods in the uncovered compound.

____

6. All of the boxes in the manufacturer's shipment identify the contents of the box by brand name and the manufacturer's name.

____

7. Sweat forms on the goods in the ship's hold.

____

8. An old intermodal container allows seawater to leak into the container.

____

9. The manufacturer has failed to pack the goods on skids or pallets for an ocean shipment. The goods must sit directly on the floor of the intermodal container.

____

OBJECTIVE 3

Name methods of export packing.

1. ____
2. ____
3. ____
4. ____
5. ____

OBJECTIVE 4

Identify advantages and disadvantages of intermodal containers. Write an "X" in the blank beside each advantage and disadvantage.

____ 1. Provide tighter control over shipments

____ 2. Facilitate consistent handling

____ 3. Cannot compete effectively for available shipping space

____ 4. Reduce freight costs if exporter's shipment is consolidated with other shipments within a container

____ 5. Can compete effectively for available shipping space

____ 6. Help control damage or theft during shipping

____ 7. Guarantees protection from water hazards

____ 8. May involve fees for delivering and placing an empty container at the manufacturer's facility

____ 9. Might not be appropriate for very small shipments

___ 10. Might reduce the need for unitizing/palletizing export goods

OBJECTIVE 5 **Explain reasons for marking/labeling.** Include as many main points as possible.

____

____

____

____

____

____

OBJECTIVE 6 **List common markings on cartons/containers for export.** List eight (8) common markings.

1. ____
2. ____
3. ____
4. ____
5. ____
6. ____
7. ____
8. ____

OBJECTIVE 7

State basic guidelines for marking/labeling. State four (4) basic guidelines.

1. ______________________________

____

2. ______________________________

____

3. ______________________________

____

4. ______________________________

____

QUICK CHECK ANSWERS

EXPORT PACKING

15

OBJECTIVE 1

Proper packing of goods for export will help to protect the goods during all phases of the shipping process, from the manufacturer's door to the foreign end-user. Export packing can reduce the causes of damage or loss to goods from handling, movement, water, theft and pilferage, and other hazards. The method of packing can also facilitate the handling and transportation of the goods. For example, the use of intermodal containers reduces the amount of handling needed to move individual packages and can allow the goods to be consolidated or moved door-to-door or port-to-port. Export packing must also communicate important information to persons involved in the shipping process, through internationally-recognized pictorial symbols for handling and special precautions, shipper's marks, the country of origin, weight information, the carton/container number, and other markings. Export packing must identify the goods for shipping and handling purposes without identifying the contents of the shipment for thieves.

Proper export packing must also meet the requirements of the shipping process, such as available shipping space, available handling facilities in port, loss prevention, buyer's requirements, and other factors.

OBJECTIVE 2

1. Handling
2. Contact
3. Theft and non-delivery
4. Contact
5. Water
6. Theft and non-delivery
7. Water
8. Water
9. Water or other

OBJECTIVE 3

In any order:

1. Cardboard cartons
2. Intermodal containers
3. Unitize/palletize
4. Open crates
5. Shrink-wrap

OBJECTIVE 4

1, 2, 4, 5, 6, 8, 9, 10.

OBJECTIVE 5

Marks and labels help to move the export goods to the ultimate consignee. Some marks are required in order to meet shipping requirements and regulations. Others can also help to assure proper handling of the goods by identifying special handling requirements and warning of improper handling. For example, internationally-recognized pictorial symbols can help assure consistent handling of export goods, especially in countries where many handlers cannot read.

In addition to meeting shipping requirements and regulations, marks and labels can help prevent theft by hiding the identity of the package's contents. Promotional or descriptive information on boxes or other shipping containers could attract the attention of thieves. At the foreign port, marks and labels are also important to identify the shipment for receivers and for customs and other authorities.

OBJECTIVE 6

In any order:

- Handling marks
- Port of export (United States)
- Exporter's and/or shipper's mark
- Consignee's mark, destination, order number
- Port of entry
- Country of origin
- Weight markings (gross and net, customary and metric)
- Carton/container number and dimensions

OBJECTIVE 7

Any four of the following:

- Satisfy any requirements for marking/labeling.
- Mark or stencil clearly and permanently on at least three sides.
- Remove old markings completely.
- Avoid identifying the contents by brand name or logo.
- Use internationally-recognized pictorial symbols where needed or required.
- Print special handling instructions or precautions in all appropriate languages.

INSURANCE

16

INTRODUCTION

You have a financial interest in the export goods until the buyer pays for the goods. Factors such as the quotation, letter of credit, sales contract and/or the purchase order may help to determine insurable interest. Although the agreed-upon terms of sale will state the geographic transfer of risk of loss or damage from the seller to the buyer, the goods remain the exporter's responsibility (whoever contracts on the bill of lading as the "shipper") regardless of the terms of sale until you receive payment or until the buyer or the buyer's intermediary takes possession. The responsibility for obtaining insurance coverage is a negotiable point. However, you should be protected in any case.

UNIT OBJECTIVE

After completing this unit, you should be familiar with insurance for export goods, including types of policies and basic steps in the claims procedure. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you should be able to

1. Match terms associated with insurance with their correct definitions.
2. Explain the importance of insuring goods for export.
3. Distinguish among types of insurance policies.
4. State causes of loss for which the carrier is generally not held liable.
5. Outline basic steps in the claims procedure.

PREPARATION

- Order additional materials to supplement this unit.

  Publications

  - *A Basic Guide to Exporting* (Current edition). Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; or contact Department of Commerce district offices.
  - *Oklahoma Export Services Directory*. Available from the Center for International Trade Development, Hall of Fame and Washington, Stillwater, Oklahoma 74078-0390.
  - *Ports of the World: A Guide to Cargo Loss Control* (Current edition). Available from CIGNA, P.O. Box 7728, Philadelphia, PA 19101.
- Review the unit and plan your presentation:
  - Estimate the amount of material that can be covered in each class session.
  - Plan for appropriate Assignments.
  - Identify objectives that you can supplement with other resources.
  - Invite guest speakers in advance.

    EXAMPLE: Area exporters, freight forwarders, and insurance brokers
- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities.

DELIVERY

Objectives 1-5

- Review terms of sale and the responsibility for insurance under different Incoterms.
- Refer back to the many hazards and causes of loss during the shipping process.

- Invite a freight forwarder and/or insurance broker to discuss types of insurance policies, coverage and the claims procedure.

EVALUATION

- Give the Quick Check soon after presenting the unit.
- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- *A Basic Guide to Exporting*, U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service. September 1986.
- "Fundamentals of Exporting" and "Shipping and Documentation" workshops, offered by Oklahoma International Export Services (OIES), a joint program of the Oklahoma Department of Commerce and the U.S. and Foreign Commercial Service of the U.S. Department of Commerce.
- *Ports of the World*—A Guide to Cargo Loss Control, Twelfth Edition, Insurance Company of North America.

OBJECTIVE 1

Match terms associated with insurance with their correct definitions.

All risk clause—Term of insurance coverage that covers only physical loss or damage from external causes; does not protect against loss or damage from strikes, riots, civil disturbances, and war

Contingent interest insurance—Insurance obtained by the exporter (1) to protect the exporter's financial interest in the export goods in countries requiring placement of marine insurance on imports through local insurance companies, and (2) to protect the exporter's financial interest in the export goods until the buyer pays for the goods

Force majeure—Acts or consequences that cannot be anticipated or controlled

Free of particular average (FPA)—Term of insurance coverage that generally restricts coverage to total losses (however, partial losses are recoverable in the event the vessel is stranded, sunk, burned, or has been on fire or in a collision)

NOTE: "Average" means a less-than-total loss.

General average loss—Term of insurance coverage that provides contributions by both ship and cargo owners to those suffering loss or damage to their export goods resulting from an intentional sacrifice by the master of the vessel in time of danger, for the benefit of both vessel and cargo

Insurable interest—The party to an export sale that will benefit from the safe arrival of the export goods or that will incur a loss by the loss, damage, or retention of the goods

Insured—The owner of an insurance policy; the policyholder

"Marine" insurance—Ocean marine cargo insurance that insures export goods shipped by air or ocean against loss or damage to the goods in-transit to foreign markets

Particular average loss—Applies whenever a total loss occurs to part of the export goods, or when the goods arrive at their destination in a damaged condition

"Perils of the sea"—A term in marine insurance that designates the causes of loss of goods for which the carrier is not legally liable

EXAMPLE: Heavy weather, stranding, lightning, collision, and sea water damage

War risk, strikes, riots and civil commotion—Excluded from all risk policies, but can be reinstated by a special endorsement or by a separate policy at an additional premium

With average (WA)—Term of insurance coverage that protects against partial damage due to sea perils if the partial damage amounts to three percent (or other specified percentage) or more of the total value of the shipment or shipping package; provides for waiver of percentage requirement and payment in full in the event the vessel is stranded, sunk, burned, or has been on fire or in a collision

OBJECTIVE 2

Explain the importance of insuring goods for export.

You have a financial interest in the export goods until the buyer pays for the goods. This interest is called a "**contingent interest**." The goods remain the exporter's responsibility (whoever contracts on the bill of lading as the "shipper") regardless of the terms of sale until (a) you receive payment or (b) the buyer or the buyer's intermediary takes possession. The foreign buyer wants to receive merchandise in good condition. Insurance can **protect the goods from the many possible causes of loss during three shipping intervals**: (1) from the manufacturer's factory or warehouse to the ship or aircraft; (2) from the U.S. port of export to the foreign port; and (3) from the foreign port to the inland destination.

NOTE: Export goods should be insured if the value of the shipment exceeds the carrier's liability. The responsibility for obtaining insurance coverage is a negotiable point. However, you should be protected in any case.

OBJECTIVE 3

Distinguish among types of insurance policies.

Open cargo policy

- Provides a blanket "warehouse-to-warehouse" coverage in effect continuously for all shipments
- Allows the insured to issue certificates of insurance
- Covers the insured for shipments made under all terms of sale

- Offers volume-based rate advantages to the insured

NOTE: Open cargo policies are most appropriate for companies that are heavily involved in exporting.

Special cargo policy

- Can provide "warehouse-to-warehouse" coverage through a one-time policy covering a single shipment
- Can be written to cover individual shipments, allowing the insured to pay for insurance when needed

NOTE: Special cargo policies are most appropriate for companies that occasionally export but that do not need continuous coverage.

Freight forwarder's/carrier's "blanket" policy

- Can provide "warehouse-to-warehouse" coverage under the forwarder's or carrier's own blanket policy
- Covers the insured for shipments while the export goods are under the control of the freight forwarder or carrier
- Requires the insured to pay only for the coverage needed for the shipment

NOTE: Freight forwarder's/carrier's "blanket" policies are most appropriate for companies that do not export frequently.

OBJECTIVE 4

State causes of loss for which the carrier is generally not held liable.

- An act, neglect or default of the master or crew in navigation or management of the ship
- Fire, unless caused by an actual fault of the carrier
- Perils of the sea or other navigable waters
- Force majeure
- Acts of war or public enemies
- Arrest or seizure under legal process
- Quarantine restrictions
- An act of omission of the shipper or owner of the goods

- Strikes, riots and civil commotion
- Inherent vice

  EXAMPLE: Inherently wrong construction, faulty materials or glue

- Insufficient packing or marking

OBJECTIVE 5

Outline basic steps in the claims procedure.

1. Be sure that the carrier's liabilities and responsibilities are described in the bill of lading.
2. Insure the goods before shipping.
3. Inspect the goods immediately and note any outside or interior damage on bills of lading or receipts for delivery.

   NOTE: Check for possible damage that cannot be easily seen by unpacking and inspecting the goods.

4. Have the receiver keep the shipping containers in question until they are inspected or examined by a claims adjuster.
5. File the claim and notify the carrier immediately in writing.

   NOTE: Under provisions in the bill of lading, or under regulatory provisions, the carrier could be relieved of responsibility if a claim is not filed against the carrier within a stated time limit.

6. Assemble documents for claims adjusters.

   EXAMPLE:

   - The insurance policy or certificate of insurance (originals and copies)
   - Bills of lading and all transshipment bills
   - Documents verifying the **value** of the goods, such as original invoices
   - Documents verifying the **condition** of the goods, such as packing lists, weight certificates and others
   - Underwriter's damage report
   - The notification of the claim against the carrier (copy) and any related correspondence with the carrier
   - Other documents as requested

QUICK CHECK

INSURANCE

16

Name ______________________________ Score __________

OBJECTIVE 1

Match terms associated with insurance with their correct definitions. Write the correct letter in each blank.

____ 1. Generally restricts coverage to total losses. However, partial losses are recoverable in the event the vessel is stranded, sunk, burned, or has been on fire or in a collision

____ 2. Protects against partial damage due to sea perils if the partial damage amounts to three percent (or other specified percentage) or more of the total value of the shipment or shipping package; provides for waiver of percentage requirement and payment in full in the event the vessel is stranded, sunk, burned, or has been on fire or in a collision

____ 3. Excluded from all risk policies, but can be reinstated by a special endorsement or by a separate policy at an additional premium

____ 4. Ocean marine cargo insurance that insures export goods shipped by air or ocean against loss or damage to the goods in-transit to foreign markets

____ 5. The owner of an insurance policy; the policyholder

____ 6. Provides contributions by both ship and cargo owners to those suffering loss or damage to their export goods resulting from an intentional sacrifice by the master of the vessel in time of danger, for the benefit of both vessel and cargo

a. All risk clause

b. Contingent interest insurance

c. Force majeure

d. Free of particular average (FPA)

e. General average loss

f. Insurable interest

g. Insured

h. "Marine" insurance

i. Particular average loss

j. "Perils of the sea"

k. War risk, strikes, riots and civil commotion

l. With average (WA)

____7. Insurance obtained by the exporter (1) to protect the exporter's financial interest in the export goods in countries requiring placement of marine insurance on imports through local insurance companies, and (2) to protect the exporter's financial interest in the export goods until the buyer pays for the goods

____8. A term in marine insurance that designates the causes of loss of goods for which the carrier is not legally liable

____9. Applies whenever a total loss occurs to part of the export goods, or when the goods arrive at their destination in a damaged condition

___10. The party to an export sale that will benefit from the safe arrival of the export goods or that will incur a loss by the loss, damage, or retention of the goods

___11. Covers only physical loss or damage from external causes; does not protect against loss or damage from strikes, riots, civil disturbances, and war

___12. Acts or consequences that cannot be anticipated or controlled

OBJECTIVE 2

Explain the importance of insuring goods for export. Include as many main points as possible.

____

____

____

____

____

____

OBJECTIVE 3

Distinguish among types of insurance policies. Write the correct letter in each blank.

____ 1. Covers the insured for shipments made under all terms of sale

____ 2. Can provide "warehouse-to-warehouse" coverage under the forwarder's or carrier's own blanket policy

____ 3. Offers volume-based rate advantages to the insured

____ 4. Can provide "warehouse-to-warehouse" coverage through a one-time policy covering a single shipment

____ 5. Provides a blanket "warehouse-to-warehouse" coverage in effect continuously for all shipments

____ 6. Can be written to cover individual shipments, allowing the insured to pay for insurance when needed

____ 7. Covers the insured for shipments while the export goods are under the control of the freight forwarder or carrier

____ 8. Allows the insured to issue certificates of insurance

____ 9. Requires the insured to pay only for the coverage needed for the shipment

a. Open cargo policy

b. Special cargo policy

c. Freight forwarder's/carrier's "blanket" policy

OBJECTIVE 4

State causes of loss for which the carrier is generally not held liable. State eight (8) causes of loss.

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________
5. ______________________________
6. ______________________________
7. ______________________________
8. ______________________________

OBJECTIVE 5

Outline basic steps in the claims procedure. Write the correct numbers 1-6 in each blank.

____Assemble documents for claims adjusters.

____Insure the goods before shipping.

____Inspect the goods immediately and note any outside or interior damage on bills of lading or receipts for delivery.

____File the claim and notify the carrier immediately in writing.

____Be sure that the carrier's liabilities and responsibilities are described in the bill of lading.

____Have the receiver keep the shipping containers in question until they are inspected or examined by a claims adjuster.

QUICK CHECK ANSWERS

INSURANCE

16

OBJECTIVE 1

1. d
2. l
3. k
4. h
5. g
6. e
7. b
8. j
9. i
10. f
11. a
12. c

OBJECTIVE 2

You have a financial interest in the export goods until the buyer pays for the goods. This interest is called a "contingent interest." The goods remain the exporter's responsibility (whoever contracts on the bill of lading as the "shipper") regardless of the terms of sale until (a) you receive payment or (b) the buyer or the buyer's intermediary takes possession. The foreign buyer wants to receive merchandise in good condition. Insurance can protect the goods from the many possible causes of loss during three shipping intervals: (1) from the manufacturer's factory or warehouse to the ship or aircraft; (2) from the U.S. port of export to the foreign port; and (3) from the foreign port to the inland destination.

OBJECTIVE 3

1. a
2. c
3. a
4. b
5. a
6. b
7. c
8. a
9. c

OBJECTIVE 4

Any eight of the following:

- An act, neglect or default of the master or crew in navigation or management of the ship
- Fire, unless caused by an actual fault of the carrier
- Perils of the sea or other navigable waters
- Force majeure
- Acts of war or public enemies
- Arrest or seizure under legal process
- Quarantine restrictions
- An act of omission of the shipper or owner of the goods
- Strikes, riots and civil commotion
- Inherent vice
- Insufficient packing or marking

OBJECTIVE 5

6 Assemble documents for claims adjusters.

2 Insure the goods before shipping.

3 Inspect the goods immediately and note any outside or interior damage on bills of lading or receipts for delivery.

5 File the claim and notify the carrier immediately in writing.

1 Be sure that the carrier's liabilities and responsibilities are described in the bill of lading.

4 Have the receiver keep the shipping containers in question until they are inspected or examined by a claims adjuster.

U.S. EXPORT REGULATIONS AND LICENSING REQUIREMENTS

17

INTRODUCTION

Most commodities are "pre-approved" for export to certain destinations. However, some commodities are controlled and cannot be exported unless the exporter has submitted an application for a specific license and has been granted the license. Export controls exist for reasons of foreign policy, national security, and domestic short supply.

U.S. exporters are responsible for complying with licensing regulations and are subject to civil and criminal penalties for exporting in violation of licensing regulations. The Department of Commerce issued the Export Administration Regulations in order to implement and enforce the Export Administration Act of 1979 (as amended).

UNIT OBJECTIVE

After completing this unit, you should be familiar with the basics of U.S. export regulations and licensing requirements. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you should be able to

1. Match terms associated with export licensing with their correct definitions.
2. Explain the purpose of the Export Administration Regulations.
3. Name the general reasons for controlling U.S. exports.
4. Describe the scope of the Export Administration Regulations.
5. Identify the possible penalties for failing to comply with the Export Administration Act of 1979, as amended.
6. Explain the importance of export licensing.
7. Distinguish between a general export license and a validated export license.
8. Match common general export licenses with their uses.
9. Name the types of validated export licenses.
10. State criteria used in evaluating applications for validated export licenses.
11. List in order the steps for tracking a validated export license application using STELA.

12. State guidelines for complying with export regulations and licensing requirements.

13. Interpret a CCL entry. (Assignment 1)

14. Determine STELA entries for sample case numbers. (Assignment 2)

PREPARATION

- Order additional materials to supplement this unit.

  Publications

  - *A Basic Guide to Exporting* (Current edition). Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; or contact Department of Commerce district offices.
  - *Export Licensing Information & Assistance*
  - *A Summary of U.S. Export Administration Regulations*
  - *Forms Supplement* (Reprint from Export Administration Regulations)
  - Country Groups World Map (Color-coded)

  Available from the Exporter Assistance Division, Publications and Regulations Branch, Room 1622, U.S. Department of Commerce, Washington, D.C. 20230 (202/377-2574).

  NOTE: Also see the Unit References.

- Review the unit and plan your presentation:
  - Estimate the amount of material that can be covered in each class session.
  - Plan for appropriate Assignments.
  - Identify objectives that you can supplement with other resources.
  - Invite guest speakers in advance.

    EXAMPLE: Area exporters, Department of Commerce specialists, international legal counsel, CITD trade specialists/analysts, or others

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities in addition to the Assignments.

DELIVERY

Objective 1

- Emphasize the value of learning the "language of exporting," including terms and definitions.
- Compare the terms "multilateral," "bilateral," and "unilateral" in addition to the given terms and definitions.
- Show an example of the Destination Control Statement.

Objectives 2-4

- Obtain a copy of the Export Administration Regulations and allow participants to review it.
- Use the CCL to identify samples of commodities controlled for reasons of foreign policy, national security or domestic short supply.
- Give examples of export goods and ask participants whether the Export Administration Regulations would apply.
- Introduce Assignment 1.

Objective 5

- Point out the possible penalties.

Objectives 6-10

- Compare examples of situations where a general export license and a validated export license is required.
- Invite area exporters to discuss their experiences with licensing.
- Assign different participants commodity descriptions from the Commodity Control List (or have participants use the descriptions of the commodities applicable to their company). As a group discussion or as a written activity, ask participants questions about their commodity description from the CCL. (The purpose of this activity is to help participants become familiar with the CCL and the information it provides.) Refer to Supplement 1 and Supplement 2.
- Describe possible export sales to specific countries and show how the Country Groups help exporters to identify export controls relating to the foreign destination of the goods.

Objective 11

- Refer to Supplement 3.
- Introduce Assignment 2.

Objective 12

- Explain why each guideline is important.
- Describe the process of applying for and receiving a validated export license. Explain the time involved and emphasize the need to apply well in advance of the shipping date. Also emphasize the benefits of using general licenses as much as possible.

APPLICATION

Objectives 13-14

- Complete each Assignment as an in-class or take-home activity after discussing the related objectives.
- Review the related objectives before completing each Assignment, if needed.
- Create additional Assignments, as needed, to reinforce the objectives and/or to meet the needs of participants.

EVALUATION

- Give the Quick Check soon after presenting the unit and after completing the Assignments.
- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- *A Basic Guide to Exporting*, U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service. September 1986.
- "Export Licensing" workshop, offered by Oklahoma International Export Services (OIES), a joint program of the Oklahoma Department of Commerce and the U.S. and Foreign Commercial Service of the U.S. Department of Commerce.
- Export Administration Regulations (Parts 768-799, inclusive, of Title 15 of the Code of Federal Regulations).

- "Export Licensing From 'A' to 'Z'," by Iain S. Baird, in *Business America* magazine, U.S. Department of Commerce. February 29, 1988.

- "Commerce Simplifies Export Licensing," by Patricia L. Woodward, in *Business America* magazine, U.S. Department of Commerce. June 8, 1987.

- *A Summary of U.S. Export Administration Regulations*, International Trade Administration, Office of Export Administration. January 1985.

- "Indications of Potential Illegal Exports," from *Business America* magazine, U.S. Department of Commerce. February 29, 1988.

- "System for Tracking Export License Applications" brochure. U.S. Department of Commerce. International Trade Administration.

- *Distribution License: A Guide for Reviewing Export Controls*, U.S. Department of Commerce, Bureau of Export Administration. July 1989.

OBJECTIVE 1

Match terms associated with export licensing with their correct definitions.

Bureau of Export Administration (BXA)—The department within the U.S. Department of Commerce that is responsible for administering export controls

Commodity—Any article, material, or supply except technical data

Commodity Control List (CCL)—The list of commodities in the Export Administration Regulations that are under the export control jurisdiction of the Bureau of Export Administration

NOTE: The CCL is in Part 799 of the Export Administration Regulations. Certain other goods are subject to control by other government agencies. For example, military goods are controlled by the Department of State, Office of Munitions Control.

"Coordinating Committee on Multilateral Export Controls" (COCOM)—A multilateral organization of member nations that cooperate in restricting strategic exports to controlled countries

NOTE: The COCOM member nations include Australia, Belgium, Canada, Denmark, Federal Republic of Germany (West Germany), France, Greece, Italy, Japan, Luxembourg, Netherlands, Norway, Portugal, Spain, Turkey, United Kingdom, and the United States.

Country Groups—Seven groupings of countries for export control purposes, included in Supplement 1 to Part 770 of the Export Administration Regulations

Destination Control Statement—A statement required by the U.S. Government on the commercial invoice and bill of lading or air waybill for most commercial shipments leaving the U.S., notifying the carrier and all foreign parties, such as the intermediate and ultimate consignees and purchaser, that the goods have been licensed for export to certain destinations only and that diversion contrary to U.S. law is prohibited; sometimes called an "antidiversion clause"

Export control commodity number (ECCN)—A classification number used to identify commodities on the Commodity Control List

Export Administration Regulations—U.S. export regulations issued by the Department of Commerce to implement the Export Administration Act of 1979 and detailed under Parts 768-799, inclusive, of Title 15 of the Code of Federal Regulations

NOTE: See the Export Administration Regulations for definitions of specific terms used in the regulations.

General license—A published authorization, described in Part 771 of the Export Administration Regulations, for the export of certain goods to certain destinations without requiring the exporter to submit an application prior to export (provided the transaction meets the criteria set forth in Part 771)

License application—An application for a validated export license

Office of Export Licensing (OEL)—The office within the U.S. Department of Commerce that processes applications for export licenses and is the final authority in determining export licensing requirements and granting or denying validated export licenses

NOTE: The OEL may consult with other agencies concerning commodities and technical data controlled by another agency of the U.S. Government.

STELA (System for Tracking Export License Applications)—A U.S. Department of Commerce computer-generated voice unit, accessed through push-button telephones, that reports the up-to-the-minute status of license applications, amendments, or reexport requests

Validated license—A license authorizing export

OBJECTIVE 2

Explain the purpose of the Export Administration Regulations.

The Export Administration Act of 1979, as amended ("the Act"), authorizes the President to control exports of U.S. commodities and technical data to all foreign destinations, as necessary, for three general reasons: foreign policy, national security, and domestic short supply.

The Department of Commerce issued the Export Administration Regulations in order to implement and enforce the Act.

OBJECTIVE 3

Name the general reasons for controlling U.S. exports.

U.S. foreign policy—Some export goods are controlled in order to promote United States foreign policy or to fulfill its stated international obligations.

U.S. national security—Some export goods are controlled because of their significance to the national security of the United States, based on a determination of whether the goods would make a significant contribution to the military potential of a country that would harm U.S. national security.

Domestic short supply—Some commodities are in limited supply in the United States. These commodities are controlled because unrestricted exports could seriously drain the U.S. supply and cause inflation due to foreign demand.

OBJECTIVE 4

Describe the scope of the Export Administration Regulations.

APPLICABLE

- Exports of commodities and technical data from the United States
- Reexports of U.S.-origin commodities and technical data from one foreign destination to another
- Exports of foreign products containing U.S.-origin parts and components from a foreign destination
- Exports of foreign products based on certain U.S.-origin technical data from a foreign destination

GENERALLY NOT APPLICABLE

- Exports of commodities manufactured overseas
- Exports of commodities containing no U.S. materials
- Exports of commodities that are not based on restricted U.S. technology

NOTE: Other U.S. Government agencies control the export of certain items. Check the Export Administration Regulations and get advice from the Department of Commerce.

OBJECTIVE 5

Identify the possible penalties for failing to comply with the Export Administration Act of 1979, as amended.

- Whoever knowingly violates the Act, regulations, a license, or an outstanding order shall be fined not more than five times the value of the exports involved or $50,000, whichever is greater, or imprisoned not more than 5 years, or both.

- Whoever willfully exports anything contrary to the Act, regulations or any license or order, with knowledge that the exports will be used for the benefit of any country to which exports are restricted for national security or foreign policy purposes—(a) except in the case of an individual, shall be fined not more than five times the value of the exports involved or $1,000,000, whichever is greater; and (b) in the case of an individual, shall be fined not more than $250,000 or imprisoned not more than 10 years, or both.

- Anyone who is issued a validated license for export to a controlled country and who, with knowledge that the goods or technology are being used by that controlled country for military or intelligence gathering purposes contrary to the license conditions, willfully fails to report that use to the Secretary of Defense—(a) except in the case of an individual, shall be fined not more than five times the value of the exports involved or $1,000,000, whichever is greater; and (b) in the case of an individual, shall be fined not more than $250,000, or imprisoned not more than 5 years, or both.

NOTE: See Section 11 of the Export Administration Regulations for a complete discussion of violations and penalties. Get qualified advice about other possible penalties, including fines, imprisonment, seizure and forfeiture.

OBJECTIVE 6

Explain the importance of export licensing.

Most commodities are "pre-approved" for export and require no application for an export license. However, **some commodities are controlled** and cannot be exported unless the exporter has submitted an application for a specific license and has been granted the license.

U.S. exporters are responsible for complying with licensing regulations and are subject to **civil and criminal penalties** for exporting in violation of licensing regulations. Freight forwarders have only **limited** liability.

OBJECTIVE 7

Distinguish between a general export license and a validated export license.

GENERAL LICENSE

- Requires no application or written pre-authorization before shipping

  NOTE: General licenses cover the export of commodities to destinations for which such commodities do not require a validated license.

- Can be used by any person, provided the transaction meets the criteria set forth in the Export Administration Regulations

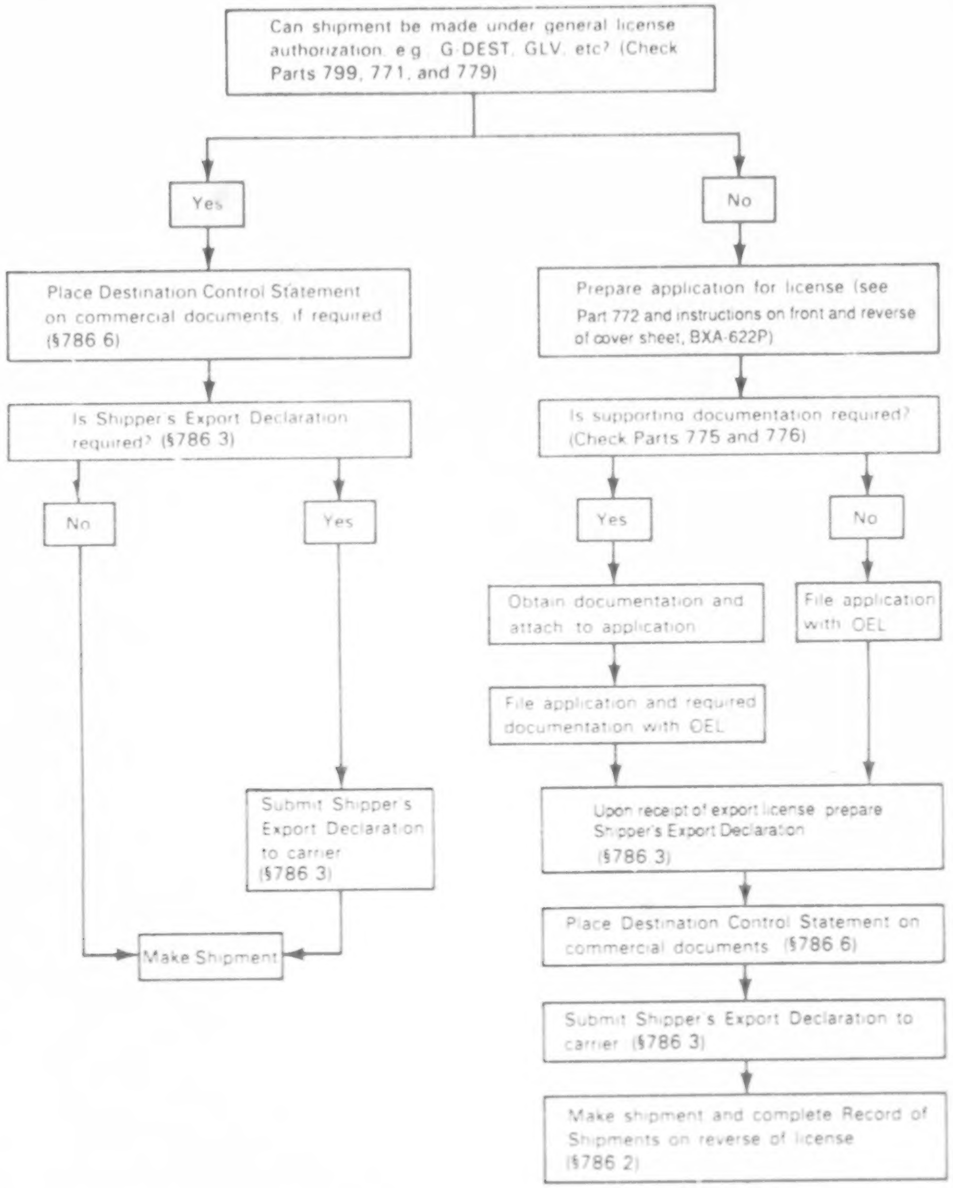
  NOTE: To determine whether a general license is appropriate for a specific destination, refer to the CCL and Part 771 of the Export Administration Regulations. Contact your nearest DOC district office for assistance.

- Is not limited to a single export transaction or time period

VALIDATED LICENSE

- Requires approval for exporting specific commodities
- Issued by or under the authority of Export Administration, authorizing export
- Covers a specific export transaction and time period

  NOTE: You can ship against a single validated license for up to 24 months, if the parties to the transaction do not change and if incremental shipments can be identified.


Can shipment be made under general license authorization, e.g. G-DEST, GLV, etc? (Check Parts 799, 771, and 779)
Yes
No
Place Destination Control Statement on commercial documents, if required (§786.6)
Is Shipper's Export Declaration required? (§786.3)
No
Yes
Submit Shipper's Export Declaration to carrier (§786.3)
Make Shipment
Prepare application for license (see Part 772 and instructions on front and reverse of cover sheet, BXA-622P)
Is supporting documentation required? (Check Parts 775 and 776)
Yes
No
Obtain documentation and attach to application
File application and required documentation with OEL
File application with OEL
Upon receipt of export license prepare Shipper's Export Declaration (§786.3)
Place Destination Control Statement on commercial documents (§786.6)
Submit Shipper's Export Declaration to carrier (§786.3)
Make shipment and complete Record of Shipments on reverse of license (§786.2)

EXPORT CONTROL FLOW CHART—This is intended as a general guideline for exports of commodities under Department of Commerce jurisdiction. However, it is not comprehensive. You should review other parts of the Regulations, for example, for special commodity restrictions and special commodity restrictions and special country restrictions. Also you should consult the "Table of Denial Orders Currently in Effect" (See Supps. Nos. 1 & 2 to Part 788) to be sure your proposed export does not involve a party currently denied export privileges.

FIGURE 17-1. Export control flow chart. (Source: Export Administration Regulations.)

OBJECTIVE 8 **Match common general export licenses with their uses.**

Type*	Definition and Authorized Use(s)*
G-DEST	**General Destination** — To export any commodity in the Commodity Control List to any destination not requiring a validated license.
GLV	**General License for Limited Value** — To export in a single shipment of limited value items.
GLR	**General License Repair, Replacement, or Return** — To return certain commodities normally requiring a validated license to the country to which those goods were originally exported, when those goods need to be repaired or have defective parts replaced.
	EXAMPLE: A computer originally shipped to France under a validated license and returned to the U.S. because of defective parts could be exported back to France under a GLR after being repaired.
GTE	**General License for Temporary Exports** — To export goods intended for temporary use overseas and return to the U.S. no later than one year after the date of export.
	EXAMPLE: Goods needed for trade shows, service contracts, overseas projects, and other non-sales uses.
GTDA	**General License for Technical Data Available to All Destinations** — To export technical data that is generally available to the public, and scientific or educational data that is not directly related to industrial processes.
GTDR	**General License for Technical Data under Restriction** — To export most unpublished data to Free World destinations.
	NOTE: Exports under GTDR are a "gray" area and can include tangibles, intangibles, and services, and usually require a confirmation by the consignee overseas not to reexport the goods.
GFW	**General license to the Free World** — To export eligible commodities for use within eligible countries, or for reexport among eligible countries for use within those countries. Described in Advisory Notes in certain CCL entries.
G-COM	**General License to COCOM** — To export eligible commodities to COCOM participating countries and other eligible countries, for consumption within an eligible country or for reexport among these countries.
BAGGAGE	To take overseas as personal baggage personal effects, household effects, vehicles, and tools of trade.

*See the Export Administration Regulations for all types and uses

OBJECTIVE 9

Name the types of validated export licenses.

Individual license—Any validated license, other than a special license, that authorizes the export of specific technical data or a specified quantity of commodities during a specified period to a designated consignee

Project license—A special license that authorizes the export of commodities (and technical data where specifically authorized) required for a specified activity during a period of approximately one year from the issuance of the license

Distribution license—A special license that authorizes the export of eligible commodities to approved consignees in specified countries, without dollar value or quantity limits; consignees must be foreign distributors or users of the licensed commodity

Service-supply license—A special license that allows persons or firms in the United States and in foreign countries to provide prompt service for equipment exported from the United States; produced overseas by a subsidiary, affiliate, or branch of a U.S. firm; or produced overseas by a manufacturer who uses parts imported from the United States in the manufactured product

OBJECTIVE 10

State criteria used in evaluating applications for validated export licenses.

- Type of commodity

  NOTE: The CCL provides information relating to export controls for specific commodities.

- End-use and/or end-user(s)
- Value of the product
- Country of destination

  NOTE: The Country Groups (Supplement 1 to Part 771 of the Export Administration Regulations) categorize countries for export control purposes (except Canada).

FOR YOUR INFORMATION

"Red flag" language indicating potential illegal exports or diversions

NOTE: Although legitimate commercial reasons may exist for the following language to appear in a transaction, you should be alert to the possibility of illegal activity when such language is present.

- The buyer or intermediary is reluctant to provide end-use or end-user information
- The stated end-use is incompatible with the capabilities of the goods
- The stated end-use is incompatible with the technical capability of the consignee or country of destination
- The performance or design characteristics are incompatible with the consignee's line of business or with the environment or level of technical development in the stated country of destination
- Little or no background information on the buyer's business is available
- The buyer is willing to pay cash for a high-value item or for a large order
- The buyer appears unfamiliar with the performance characteristics or uses of the goods
- The buyer refuses normally accepted installation or service contracts
- The delivery dates are vague, or the delivery locations are not consistent with normal practices for the goods
- Freight forwarders are listed as ultimate consignees
- The shipping route would not normally be used for shipments to the stated final destination
- The intermediate or ultimate consignee is in a business that would not normally handle this type of transaction
- Packaging or repackaging requirements are unsuitable for the stated method of shipment or destination
- Evasive responses are given to questions about any of the above or to whether the goods are for domestic use, export or reexport

SOURCE: *Business America* magazine, February 29, 1988.

OBJECTIVE 11

List in order the steps for tracking a validated export license application using STELA.

1. Call the telephone number for STELA.

   NOTE: STELA can be accessed only through push-button telephones.

2. Type in your case number (when prompted).

   NOTE: Use the number 1 for the letter A and the number 2 for the letter B. For amendments, type in the case number followed by an * and the amendment number.

3. Type the # sign to end your entry.

EXAMPLE

If your case is	your entry is
A865769	1865769#
B344398	2344398#
B263491 Amendment 2	2263491*2#

OBJECTIVE 12

State guidelines for complying with export regulations and licensing requirements.

- Contact your nearest DOC district office for assistance in determining your specific licensing requirements.

- Use general licenses and multiple-transaction validated licenses whenever possible.

  NOTE: Before filing an export license application or a reexport request, you should review the General License provisions in Part 771 (of the Export Administration Regulations) to see whether your shipment requires a validated license or if it may be shipped under a general license.

- Determine the export license requirements for the export goods *early*.

  EXAMPLE: Do not wait to determine license requirements when the export goods are ready for shipping.

- Avoid overshipping by accounting for the quantity and value of goods shipped against a validated license.

- Keep track of the license expiration date to avoid shipments after the license has expired.

- Stay up-to-date with export control requirements in the Export Administration Regulations.
- Get qualified advice about U.S. export regulations and licensing requirements.

COUNTRY GROUPS FOR EXPORT CONTROL PURPOSES

NOTE: The Export Administration Regulations might make a reference to particular Country Groups. Exporters should know the Country Group(s) to which they are exporting and must comply with the regulations affecting that Country Group.

COUNTRY GROUP Q

Romania

COUNTRY GROUP S

Libya

COUNTRY GROUP T

Greenland
Mexico (including Cozumel and Revilla Gigedo Islands)
Miquelon and St. Pierre Islands

Bahamas
Barbados
Belize
Bermuda
Costa Rica
Dominican Republic
El Salvador
French West Indies
Guatemala
Haiti
(including Gonave and Tortuga Islands)
Honduras
(including Bahia and Swan Islands)
Jamaica
Leeward and Windward Islands
Netherlands Antilles
Nicaragua
Panama
Trinidad and Tobago

Argentina
Bolivia
Brazil
Chile
Colombia
Ecuador (including the Galapagos Islands)
Falkland Islands (Islas Malvinas)
French Guiana (including Inini)
Guyana
Paraguay
Peru
Surinam
Uruguay
Venezuela

COUNTRY GROUP V

All countries not included in any other country group (except Canada)

COUNTRY GROUP W

Hungary
Poland

COUNTRY GROUP Y

Albania
Bulgaria
Czechoslovakia
Estonia
German Democratic Republic
(including East Berlin)
Laos
Latvia
Lithuania
Mongolian People's Republic
Union of Soviet Socialist Republics

COUNTRY GROUP Z

Cambodia
Cuba
North Korea
Vietnam

CCL DATA SHEET

DIRECTIONS

- For each of your company's potential products for export, complete and file the following information about the product from the Commodity Control List.

  NOTE: Consult with the Department of Commerce, if needed, to choose the most appropriate ECCN for your product.

- Refer to this completed Supplement to help you plan your export licensing activities.

CCL DATA SHEET

Product: ______________________________

ECCN: ______________________________

ECCN Description/Heading: ______________________________

____

____

Unit: ______________________________

Validated License Required (Country Groups): ______________________________

____

GLV $ Value Limit ($ value per Country Group): ______________________________

____

____

Reason(s) for Control: ______________________________

____

Special Licenses Available: ______________________________

____

____

____

____

GFW/G-COM Availability: ______________________________

____

____

THE STELA VOCABULARY

Approved with conditions—Conditions stated with license. Wait for your license before shipping.

Approved without conditions—License is on the way. You may ship.

Cancelled—Case was cancelled at your request.

Hold without action—Waiting for information from you before continuing to process your case.

Intent-to-deny letter—You have received or will soon receive a letter informing you that your case, pending a satisfactory rebuttal from you, will almost certainly be denied.

Invalid format—You entered the case number incorrectly. Please try again.

Negative-consideration letter—You have received or will soon receive a letter giving the reason(s) why your case is receiving negative consideration. You will have an opportunity to respond to the issues outlined in the letter.

Pending—Processing continues.

Returned without action—Your application was inaccurate or incomplete.

Revoked—New conditions arose. Export Administration is recalling your license.

Suspended—Wait for further notice before shipping.

SOURCE: "System for Tracking Export License Applications" brochure, U.S. Department of Commerce, International Trade Administration.

Name ______________________________ Score ________

OBJECTIVE 13

Interpret a CCL entry.

INTRODUCTION

Before filing an export license application or a reexport request, you should review the General License provisions in Part 771 (of the Export Administration Regulations) to see whether your shipment requires a validated license or if it may be shipped under a general license. You should contact your nearest DOC district office for advice in determining your specific licensing requirements. You can also contact BXA in Washington, D.C., to verify the proper ECCN for your product.

Why should you be familiar with the format of a common CCL entry? It remains your responsibility to use the appropriate ECCN for your product and to follow the licensing requirements for that ECCN. You should also make your best effort to identify the appropriate ECCN for your export goods, should you need to get qualified advice. If you contact BXA for assistance, you are expected to provide a recommended classification for your commodities and your reasons for this classification. You should also be familiar with any licensing requirements for your export goods in order to guide your response to a foreign inquiry. The CCL entry for your product can tell you whether you can ship the goods under a validated license to specific destinations, whether you could ship under a general license, documentation requirements relating to the destination, whether any special licenses are available, and other important information.

IMPORTANT: Do not use this Assignment to replace the qualified advice of your DOC district office and/or the Bureau of Export Administration.

DIRECTIONS

- Review the following steps and the sample pages from the Introduction to the CCL.
- Study the sample CCL entries.
- Answer the questions at the end of this Assignment.

USING THE CCL

1. Match your product to the appropriate Commodity Group.

   NOTE: The Introduction to the CCL identifies ten general commodity groups.

2. Within the identified Commodity Group, find the specific ECCN and commodity description for your product, based on the particular characteristics and function of the equipment.

   NOTE: Some CCL entries include the abbreviation "n.e.s" in the commodity description for a specific ECCN. This abbreviation means "not elsewhere specified." If your product appears to match an ECCN that includes "n.e.s." in the commodity description, you should not use that CCL entry until you determine whether another CCL entry specifically covers your product.

3. Interpret the ECCN.

   NOTE: See the following pages from the Introduction to the CCL, Part 799.1 of the Export Administration Regulations.

4. Review the General License provisions in Part 771 to see whether your shipment requires a validated license or if it may be shipped under a general license.

   NOTE: Also review other specific regulations that may apply.

5. Contact your nearest DOC district office for advice.

§ 799.1

THE COMMODITY CONTROL LIST AND HOW TO USE IT

(a) Commodity Coverage

Export Administration (EA) maintains the Commodity Control List (CCL), which includes all commodities subject to U.S. Department of Commerce export controls. The CCL does not include those commodities exclusively controlled for export by another department or agency of the U.S. Government. For example, arms, ammunition, and implements of war are controlled for export by the Office of Munitions Control, U.S. Department of State. See § 770.10 for a listing of exports controlled by other U.S. Government departments and agencies.

(b) Commodity Groups

The commodities under EA jurisdiction are grouped on the CCL under 10 general categories. Each CCL entry is preceded by a four-digit Export Control Commodity Number (ECCN) and a code letter. The first digit relates to the strategic level of control; the second digit identifies the Group to which the commodity belongs; and the remaining two digits identify related commodities within a Group. Within each group, the entries are numbered consecutively by the third and fourth digits.

Commodity Group Number	Commodity Groups	Commodity Control List Page No
0	Metal-Working Machinery	CCL-1
1	Chemical and Petroleum Equipment	CCL-8
2	Electrical and Power-Generating Equipment	CCL-12
3	General Industrial Equipment	CCL-14
4	Transportation Equipment	CCL-34
5	Electronics and Precision Instruments	CCL-45
6	Metals, Minerals, and Their Manufactures	CCL-144
7	Chemicals, Metalloids, Petroleum Products and Related Materials	CCL-151
8	Rubber and Rubber Products	CCL-161
9	Miscellaneous	CCL-162

Within the ten general categories, specific CCL entries define the commodities controlled to the country groups and individual destinations specified in the paragraph titled "Validated License Required" under each ECCN. See Supplement No. 1 to Part 770 for a listing of the countries included in each country group.

(c) Embargo Destinations

Almost all CCL entries include Country Groups S and Z, embargo destinations, under the heading "Validated License Required." Generally, the last entry in each commodity category is a "basket" entry asserting control over exports to destinations in Country Groups S and Z of commodities that are not elsewhere specified in that commodity category. In a few instances, however, certain entries, or portions of entries, are excepted from the general embargo policy and are specifically identified. You may export the excepted commodities under General License *G-DEST*. Certain other General Licenses may also apply, *e.g.*, General License *GIFT*. With these exceptions, you may not export or reexport any commodity to a destination in Country Group S or Z—

(1) Unless you have filed an export license application (Form BXA-622P) or request to reexport (Form BXA-699P) with EA, and

(2) Until EA issues a validated export license or reexport approval covering your proposed transaction.

See general policy statements regarding embargo destinations in § 785.1 (Country Group Z) and § 785.7 (Country Group S).

(d) All Other Destinations, Except Canada.

(1) If you intend to export a commodity to a destination in Country Group Q, T, V, W or Y and that commodity is covered by a CCL entry that includes Q, T, V, W, or Y under the heading "Validated License Required," you must usually file an export license application or reexport request with EA. EA must then issue a validated export license or reexport authorization covering your proposed transaction before you make a shipment.

(2) If your commodity is covered by a CCL entry, but you intend to export it to a country that is *not* included in a country group for which there are controls, you may ship the commodity under Gener-

al License *G-DEST*, provided that none of the parties involved is currently denied export privileges (see Supplement No. 1 to Part 788) and the export is not restricted by the special licensing requirements summarized in (f)(4) below.

(3) You should review the General License provisions in Part 771 before filing an export license application or reexport request to see whether your shipment requires a validated license or if it may be shipped under a general license. For example, you may be able to export a small value shipment of a commodity included in a CCL entry to a destination in Country Group Q, T or V under General License *GLV*. In addition, one of the other, more specialized, General Licenses explained in Part 771 may apply.

(e) Canada

Canada is not included in any of the Country Groups, and you may export most commodities to Canada for consumption or use in that country without an export license. In the few instances where a validated license is required, Canada is specifically named in the CCL entry. See § 785.6 for a general policy statement regarding exports to Canada. Note also the special licensing requirements summarized in (f)(4) below.

(f) How To Use the CCL

(1) Identifying the proper CCL entry.

First, the exporter *must* attempt to identify which ECCN covers the commodity proposed for export. The general characteristics of the commodity will usually guide the exporter to the appropriate Commodity Group. Once the appropriate Commodity Group is identified, the particular characteristics and function of the equipment should be matched to a specific ECCN. The index to the CCL may also help to match a general description to a specific ECCN entry. All items subject to Commerce licensing jurisdiction are included on the CCL, either in a specific commodity listing or in an "other, n.e.s." entry at the end of each Commodity Group.

Export Administration will respond to properly submitted requests for verification of the proper ECCN within ten working days after receipt of the request. To insure that the request will be acted upon expeditiously, it will necessary for the requester to do the following:

(i) The requester must submit a recommended classification for the commodity(ies) and explain the reasons for this classification. This explanation must contain an analysis of the classified commodity(ies) in terms of the technical control parameters specified in the appropriate ECCN. If the requester cannot determine the appropriate classification, then the requester must explain the reasons for failing to recommend an appropriate classification. This explanation should include an identification of ambiquities or deficiencies in the regulations that precluded making a classification;

(ii) The requester must attach descriptive literature, brochures, technical papers or specifications that provide sufficient technical detail to enable EA personnel to verify or correct the commodity classification;

(iii) No more than five commodities will be considered in a single request. Exceptions may be made on a case-by-case basis for several related products if the relationship between these products is substantiated and documented;

(iv) The request must be mailed to the following address: Export Administration, P.O. Box 273, Washington, D.C. 20044; and

(v) Request(s) must be clearly marked at the top of the first page and on the lower left-hand corner of the envelope "Commodity Classification Request".

Any request that omits essential information, or is otherwise incomplete, will be returned to the requested specifying the reasons for the return.

(2) Export Control Commodity Number.

After you find the CCL entry, note the Export Control Commodity Number (ECCN). This is a four-digit number that must appear on your export license application or reexport request, if one is required. The four-digit number will be followed by a code letter. This code letter is a key to the documentation requirements of Part 775, and is used by many exporters as a data processing code to indicate the country group level of control for CCL entries. The letters used and the respective country groups are:

Code Letters	*Country Groups for Which Validated License is Required*
A	QSTVWYZ (Multilaterally controlled to all destinations.) Only "A" commodities are subject to IC/DV procedure (see § 775.3).
B	QSTVWYZ (Unilaterally controlled to all destinations)
C	QSWYZ and certain other countries.
D	QSWYZ only.
E	SWYZ.
F	SZ and certain other countries.

G	SZ only.
I	None.
M	Various (Country Group control level is governed by another entry on the CCL.

(3) Country of Destination and value of shipment.

Once you locate the ECCN for a commodity you wish to export, you must determine if a validated export license is required for *the particular shipment*. Do this by referring to the paragraph titled "Validated License Required," and in some cases, to the paragraph titled "GLV $ Value Limit."

(i) If the code letter following the ECCN is A or B, and the country of destination is in Country Group T or V, you will need a validated export license if the value of the shipment exceeds the value shown under the heading "GLV $ Value Limit." (See § 771.5 for restrictions on the use of General License GLV.) However, if the shipment is to an eligible country and if the commodity meets the technical performance characteristics described in a designated Advisory Note that is listed in the paragraph titled "GFW Eligibility," you may ship under General License GFW (see § 771.23). The countries eligible for the GFW procedure are those destinations listed in Supplement No. 2 to Part 773 and any destination listed in Supplement No. 3 to Part 773 *except* Ethiopia, Lebanon, and Nicaragua. (Also see § 771.8 to determine if your shipment qualifies for export under General License G-COM.)

(ii) If the code letter following the ECCN is A and the country of destination is in Country Group Q, S, W, Y or Z, you will need a validated export license *regardless of the value of the shipment.*

(iii) If the code letter following the ECCN is B, C, D or E, and the country of destination is in Country Group S, W, Y or Z (or is specifically named under the heading "Validated License Required" for that CCL entry), a validated export license *is* required, regardless of the value of the shipment.

(iv) If the country of destination is in Country Group Q, a validated export license is required *unless* the code letter is E, F, G or I, or the shipment does not exceed the GLV $ value for Group Q shown under the "GLV $ Value Limit" heading for that CCL entry. The GLV $ value limit for Country Group Q is "0" unless stated otherwise under "GLV $ Value Limit." See § 771.5 for restrictions on the use of General License *GLV*.

(v) If the code letter following the ECCN is F or G, and the country of destination is in Country Group S or Z (or is specifically named under "Validated License Required"), you *will* need a validated export license, regardless of the value of the shipment.

(4) Special licensing requirements.

Under certain circumstances, you may *not* export a commodity under a General License even though, from an examination of the CCL, it appears to meet the requirements for export under a General License. (You should review, in particular, Parts 776, 778, and 785.) Some examples of special restrictions are described below—

(i) You will need an individual validated export license for a commodity which could otherwise be shipped under general license if you know or have reason to know that the commodity will be used with nuclear weapons, nuclear explosive devices, nuclear testing, the chemical processing of irradiated special nuclear or source material, the production of heavy water, the separation of isotopes of source and special nuclear material, or the fabrication of nuclear reactor fuel containing plutonium, as described in § 778.3.

(ii) **[Reserved]**

(iii) Many entries contain special instructions about additional validated license requirements that apply only to certain countries or consignees within country groups (*e.g.*, South African military and police, Soviet Kama River and ZIL truck plants). You are responsible for checking entries for these special controls before assuming that you can use General License *G-DEST*.

(g) Unit of Quantity

You must enter the quantity in the units given for each commodity under the "UNIT" heading on your export license application. If a unit of quantity other than the one specified in the CCL is commonly used in the trade, you may enter the quantity in terms of that unit in addition to the required unit on your application. If a unit of weight or measure is given in the Unit paragraph, a shipping tolerance is allowed (see § 786.7).

(h) Processing Code

For each ECCN on the Commodity Control List, a processing code, *i.e.*, CM, CS, EE, MT, SS, or TE, appears after the heading Processing Code. You must show a processing code on your application for export license or reexport request, since the Office of Export Administration uses the codes to facilitate the internal routing and processing of export license applications. These processing codes stand for Chemicals and Materials (CM), Computer Systems

(CS), Electronic Components and Instrumentation (EE), Microcomputers and Telecommunications (MT), Short Supply (SS), and Transportation Capital Equipment (TE). You may enter only those ECCNs that have the same processing code on a single application for export license. (See § 772.4(d) for complete information on the inclusion of related commodities on a single application.)

(i) Reason for Control

The *Reason For Control* paragraph for each ECCN specifies the statutory basis under which that commodity is controlled. Reasons for control include:

National security
Short supply (resource assessment)
Foreign policy
Nuclear non-proliferation
Crime control (foreign policy)

In some cases, more than one reason for control is given for one entry. If commodities in a CCL entry are controlled for one reason to some countries, and for another reason to other countries, then the least comprehensive controls are explained. Also, all entries (except those showing "None" under *Validated License Required*) are controlled for foreign policy reasons to Country Groups S and Z due to certain embargo programs. In addition, all entries having both a "V" under *Validated License Required* and "National security" under Reason For Control may be controlled for foreign policy reasons to Syria and the People's Democratic Republic of Yemen. You can determine if your proposed shipment to Syria or the People's Democratic Republic of Yemen will be reviewed for foreign policy purposes by referring to § 785.4(d) of the Regulations. Applications involving entries having "National security" but not "Nuclear non-proliferation" under *Reason for Control* are subject to nuclear non-proliferation controls if the end-use or end-user is nuclear related. (See § 778.2.) In some cases, different paragraphs in the "LIST" of sub-items of the CCL entry are controlled for different reasons. In these cases, the different controls are explained. (For example, see ECCN 1110A.)

(j) The Abbreviation "n.e.s."

The abbreviation "n.e.s." appearing in various CCL entries means "not elsewhere specified." If a commodity you intend to export appears to be covered by a CCL entry and the commodity description carries the limitation "n.e.s." you should not use that CCL entry until you determine whether another CCL entry specifically covers that commodity.

(k) Commodity Description on Application or Reexport Requests

Various CCL entries include phrases such as "specify by name," "specify by name and model number," and "give full specification." OEL requires this information on export license applications or reexport requests in order to evaluate the proposed export. If you fail to provide the requested information, there may be a delay in processing, or OEL may return your application or reexport request without action.

(l) CCL Paragraph References Used on Applications or Reexport Requests

In Item 9(c) of your export license application or reexport request, specify following the ECCN the paragraph letter ((a), (b), etc.) of the list of sub-items of that ECCN that corresponds to the commodity you wish to export or reexport.

(m) NATO Countries

The *Validated License Required* paragraph and other special notes in the CCL cite "NATO."

The NATO countries are: Belgium, Canada, Denmark, France, the Federal Republic of Germany (including West Berlin), Greece, Iceland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Turkey, and the United Kingdom.

(n) Software and Technical Data

Software and other technical data listed under CCL entries are controlled by and subject to the licensing requirements imposed under Part 779 of the Export Administration Regulations; see § 779.4. For computer-related terms, see ECCN 1565A.

NOTE

The foregoing portion of this § 799.1 describes the CCL. For a more detailed explanation, refer to other parts of the Export Administration Regulations.

§ 775.1

INTRODUCTION

Most individual export license applications and certain reexport authorization requests must be accompanied by supporting documents designed to elicit information concerning the disposition abroad of the goods intended for export or reexport.

The chart below describes in brief the documents that are required in support of various types of proposed export transactions. Specific regulations governing the submission of these documents follow as indicated on the chart. See also § 775.9 for provisions common to two or more of the required documents.

In addition, the exporter may also be required to obtain from the ultimate consignee and/or purchaser a document issued by the consignee and/or purchaser's government after shipment has been made. Detailed regulations governing submission of this document are contained in § 775.3(i).

§ 775.2

FORM ITA-629P, STATEMENT BY ULTIMATE CONSIGNEE AND PURCHASER

(a) Scope

A Form ITA-629P, Statement by Ultimate Consignee and Purchaser is required, unless one or more of the exemptions set forth in (b) below apply, in support of each individual export license application where the country of ultimate destination is in Country Group Q, S, V, W, Y, or Z. In addition, a Form ITA-629P is required in support of reexport authorization requests involving shipments to certain countries as specified in Part 774. This document may be completed, at the ultimate consignee's option, to cover a single transaction or multiple transactions. Detailed instructions for completion and use of the form are set forth in § 775.2(c) through (i) below. The Form ITA-629P is required by the Office of Export Licensing to assure that foreign consignees and purchasers are fully aware

If the commodity is	and the country of destination is	Required document is	For specific regulations see
1 Identified by the code letter A following the Export Control Commodity Number	Australia,[1] Austria, Belgium, Denmark, Federal Republic of Germany, Finland, France, Greece, Hong Kong, Republic of Ireland, Italy, Japan, Luxembourg, Netherlands, Norway, Portugal, Singapore, Spain, Turkey, or United Kingdom	International Import Certificate issued by the government of the country of destination	§ 775.3
2 Identified by the code letter B or M	Same as above	Statement by Ultimate Consignee and Purchaser (Form ITA-629P)	§ 775.2
3 Identified by the code letter A, B, or M	Switzerland	Swiss Blue Import Certificate issued by Swiss Government	§ 775.4
4 Identified by the code letter A, B, or M	Yugoslavia	Yugoslav End-Use Certificate issued by Yugoslav Chamber of Economy	§ 775.5
5 Identified by the code letter A	Peoples Republic of China (PRC)	PRC End-User Certificate	§ 775.6
6 Identified by the code letter A or B and has "national security" in the Reason for Control portion of the CCL entry	India	Indian Import Certificate	§ 775.7
7 Identified by the code letter A, B, C, D, E, F, G, or M	All other destinations except those included in Country Group T	Statement by Ultimate Consignee and Purchaser (Form ITA-629P)	§ 775.2

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[1] The Bureau of Export Administration will accept either the Australian Import Certificate or Form ITA-629P, Statement by Ultimate Consignee and Purchaser.

of their responsibilities for the representations made to the Office of Export Licensing and for the disposition of the licensed commodities only in those foreign countries where the Office of Export Licensing has specifically authorized disposition.

(b) Exemptions

The provisions of this § 775.2 do not apply if the license application covering the proposed shipment shows that any of the following conditions is present:

(1) An International Import Certificate (§ 775.3), a Swiss Blue Import Certificate (§ 775.4), a Yugoslav End-Use Certificate (§ 775.5), a People's Republic of China End-User Certificate (§ 775.6) or an Indian Import License (§ 775.7) is required in support of the application.

(2) The total value of commodities classified under a single entry (ECCN) on the Commodity Control List (*as shown on the export order covering the application*) is less than $5,000. However, this total value exemption does not apply to an application supported by a Form ITA-629P covering multiple transactions.

NOTE

A license application listing several Commodity Control List entries qualifies for this exemption as long as the value of commodities classified under *each* ECCN does not exceed $5,000. In this case, the total value of the license may exceed $5,000.

(3) Both the ultimate consignee and purchaser are a foreign government(s) or foreign government agency(ies). However, if either is not a foreign government or government agency, then a statement from that nongovernmental party is required.

For the purpose of this regulation, the term "government agency" is defined as follows:

(i) National governmental departments operated by government-paid personnel performing governmental administrative functions; *e.g.*, Finance Ministry, Ministry of Defense, Ministry of Health, etc. Municipal or other local government entities must submit consignee statements.

(ii) National government-owned public service entities; *e.g.*, nationally owned railway, postal, telephone, telegraph, broadcasting, and power systems, etc. The term "government agency" does not include government corporations, quasi-government agencies, and state enterprises engaged in commercial, industrial, and manufacturing activities, such as petroleum refineries, mines, steel mills, retail stores, automobile manufacturing plants, airlines, or steamship lines that operate between two or more countries, etc.

(4) Shipment will be made by a relief agency registered with the Advisory Committee on Voluntary Foreign Aid, U.S. Agency for International Development, to a member agency in the foreign country.

(5) The applicant is the same person as the ultimate consignee, provided he furnishes on the license application all the applicable information that would be required in a consignee/purchaser statement. This exemption does not apply where the applicant and the consignee are separate entities, such as parent and subsidiary, or affiliated or associated firms.

(6) The export will be made for display at a trade fair or exhibition, or for demonstration or testing purposes (see § 772.8(c)).

(7) The ultimate consignee is an institution of higher learning (*e.g.*, university, academy, college, etc.), located in Country Group V. The institution must have actually placed the order with the applicant and will take delivery when the shipment is received in the importing country. This exemption does not apply if the commodities to be exported are listed in Supplement No. 1 to Part 773, "Commodities Excluded From Certain Special License Procedures".

(8) Shipment will be made under the short supply provisions of Part 777.

(9) The license application is for a Project License (§ 773.2), Distribution License (§ 773.3), Service Supply License (§ 773.7), or is supported by Form ITA-686P, Statement by Foreign Importer of Aircraft or Vessel Repair Parts (§ 773.8).

NOTE

Pursuant to § 772.5, the Office of Export Licensing may require an applicant to furnish a Form ITA-629P, Statement by Ultimate Consignee and Purchaser, in support of a pending application even though the document is exempted by this § 775.2(b).

(c) Applications Filed Without Statements

Where an application requiring a consignee/purchaser statement is not accompanied by such statement, the application will be returned without action to the applicant. However, if an applicant can show that he has made diligent efforts to obtain such statement and has been unable to do so, he may advise the Office of Export Licensing in a letter attached to his application, giving the the reasons stated by the ultimate consignee or purchaser for failing or refusing to supply the statement. If

EXAMPLE 1

ECCN 1460A
Aircraft and helicopters, aero-engines, and
aircraft and helicopter equipment.

GLV $ Value Limit: General License *GLV* not applicable; however, another general license may apply.

Processing Code: TE

Reason for Control: National security

Special Licenses Available: None

Definitive List of Characteristics Describing Floating Docks and Technology Therefor Controlled by ECCN 1425A:

(a) floating docks specially designed for use at remote locations (*i.e.,* with support from shore bases);

Note: These docks incorporate at least the following three facilities and normally contain more than 3,000 kw (4,000 hp) of electrical power generation equipment:

(1) welding and pipe fitting repair shop(s);

(2) electrical and electronic repair shop(s);

(3) mechanical repair or metal working (machine) shop(s);

(b) floating docks specially equipped to permit the operation, maintenance or repair of nuclear reactors;

(c) floating docks having all the following characteristics;

(1) a lifting capacity or more than 40,000 short tons (36,364 metric tons);

(2) larger than 120 meters in length and 30 meters in width, measured between the pontoons.

Note: AFDB, AFDL, AFDM, ARD, ARDM and YFD classes of floating dry docks require export authorization from the U.S. Department of State, Office of Munitions Control. See Supp. No. 2 to Part 770.

Note: Floating drydocks not under control by OMC or not meeting specifications of ECCN 1425A are classified under ECCN 6499G.

1431A Marine gas turbine engines (marine propulsion or shipboard power generation engines), whether originally designed as such or adapted for such use, and specially designed components therefor.

Controls for ECCN 1431A

Unit: Report engines in "number"; parts and accessories in "$ value."

Validated License Required: Country Groups QSTVWYZ.

GLV $ Value Limit: $2,000 for Country Groups T & V, except $0 for the People's Republic of China; $0 for all other destinations.

Processing Code: TE.

Reason for Control: National security.

Special Licenses Available: See Part 773.

Note 1: *Reserved.*

(Advisory) Note 2: Licenses are likely to be approved for export to satisfactory end-users in Country Groups QWY for the shipment of engines in appropriate numbers and their specially designed components for non-marine propulsion or non-shipboard civil end-use.

(Advisory) Note 3: Applications to export core-section modules and specially designed components covered by ECCN 1460A shall be reviewed under the provisions of that ECCN, even if the gas turbine aero-engine has been modified for use in marine propulsion or shipboard power generation.

Note 4: *Reserved.*

Note 5: *Reserved.*

4431B Other marine propulsion steam turbines specially designed for naval use; and parts and accessories, n.e.s. (Specify hp or kW.)

Controls for ECCN 4431B

Unit: Report in "$ value."

Validated License Required: Country Groups QSTVWYZ.

GLV $ Value Limit: $2,000 for Country Groups T & V; $0 for all other destinations.

Processing Code: TE.

Reason for Control: National security.

Special Licenses Available: See Part 773.

5431C Compressors, fans, and blowers, any type, specially designed or modified for military or naval shipboard use; and parts and attachments, n.e.s. (Specify by name.)

Controls for ECCN 5431C

Unit: Report in "$ value."

Validated License Required: Country Groups QSWYZ, Afghanistan, Iran, and the People's Republic of China and as required by Special South Africa policy below.

GLV $ Value Limit: $1,000 for Country Group Q. General License *GLV* is not applicable to other destinations; however, another general license may apply.

Processing Code: TE.

Reason for Control: National security; foreign policy.

Special Licenses Available: See Part 773.

Special South Africa and Namibia Controls: A validated license is required for export to the Republic of South Africa and Namibia if intended for delivery to or for use by or for military or police entities in these destinations, or for use in servicing equipment owned, controlled, or used by or for these entities. See § 785.4(a).

1460A Aircraft and helicopters, aero-engines, and aircraft and helicopter equipment.

Note: For "software", see Supp. No. 3 to Part 779.

Controls for ECCN 1460A

Unit: Report aircraft, helicopters, and engines in "number"; parts and accessories in "$ value."

Validated License Required: Country Groups QSTVWYZ.

GLV $ Value Limit: $2,000 for Country Groups T & V, except $0 for the People's Republic of China; $0 for all other destinations.

Processing Code: TE.

Reason for Control: National security; foreign policy. Foreign policy controls apply for nuclear weapons delivery purposes to paragraphs (c), and (d) as applicable to (c), of the List below for lightweight turbojet and turbofan engines (including turbocompound engines) that are small and fuel efficient.

Special Licenses Available: None for commodities defined in paragraphs (a) and (b) of the List below nor for commodities under foreign policy controls for nuclear weapons delivery purposes (§ 776.18(c)). See Part 773 for special licenses available for other commodities defined in ECCN 1460A.

Note—Nonmilitary aircraft designed to carry up to a maximum of 25 persons, including crew, may be exported under the Distribution License to all normally eligible countries, except Libya, Syria, the People's Democratic Republic of Yemen, the Republic of South Africa, and Namibia.

Note—Bulk licenses may not be used to provide aircraft parts and accessories to aircraft owned, operated, or controlled by, or under charter or lease to Libya or any of its nationals.

Technical Data: Exports of most technical data relating to civil aircraft, civil aircraft equipment, and parts, accessories, or components thereof require a validated export license to all destinations except Canada. See §779.4(d)(1) for exceptions to this policy.

Special Foreign Policy Controls:

1. For commodities defined in paragraph (a) of the List below, foreign policy controls apply to Libya, Iran, Syria, the Republic of South Africa, and Namibia for both aircraft and helicopters regardless of value, and to the People's Democratic Republic of Yemen for fixed-wing aircraft valued at $3 million or more, and for all helicopters (except aircraft and helicopters for use by regularly scheduled airlines, subject to certain assurances—see § 785.4(d)(2)).

2. For commodities defined in paragraphs (b), (c) and (d) of the List below, foreign policy controls apply only to Libya, Iran, and Syria.

List of Nonmilitary Equipment Controlled by ECCN 1460A

(a) Aircraft and helicopters, *except* those that do not contain equipment listed in Supp. No. 2 to Part 770 or in ECCNs 1485A, 1501A or any ECCN beginning with the numeral 2 and are of types in bona fide normal civil use (Specify make and model of aircraft and type of avionic equipment installed on aircraft.); and

(b) "Helicopter power transfer systems" *except* those that have been in civil use in bona fide "civil helicopters" for more than eight years (Helicopter power transfer systems in civil use for more than eight years require a validated export license to destinations in Country Groups QSWYZ.);

(c) Gas turbine engines and auxiliary power units (APUs) for use in aircraft or helicopters, *except*:

(1) Jet, turboprop and turboshaft aircraft engines in civil use in bona fide "civil aircraft" or "civil helicopters" for more than eight years (Jet, turboprop and turboshaft aircraft engines in civil use for more than eight years require a validated export license to destinations in Country Groups QSWYZ.);

(2) Gas turbine powered aircraft APUs in civil use in bona fide "civil aircraft" or "civil helicopters" for more than eight years (Gas turbine powered aircraft APU's in civil use for more than eight years require a validated export license to destinations in Country Groups QSWYZ.);

(d) Specially designed components for gas turbine engines, APUs and "helicopter power transfer systems", controlled by sub-paragraphs (b) and (c) above, 'as follows:

(1) Embodying technologies listed under Notes 8 or 9;

(2) Engine hot-section components;

(3) Engine control system components;

(4) Gas turbine engine or APU rotor system components (including bearings);

(Aero-engines, APUs or "helicopter power transfer systems" that have any special feature designed for a military application are controlled by the Department of State (See Supp. No. 2 to Part 770). For industrial gas turbine engines components, see ECCN 1372A; for marine gas turbine engines, see ECCN 1431A.)

Note 1: *Reserved.*

Note 2: The period of bona fide civil use referred to in sub-paragraphs (b) and (c) above begins with the date that the particular engine or "helicopter power transfer system" (model and specifications) or its most recent modification was certified as airworthy for commercial service by the Federal Aviation Administration (FAA). However, it is recognized that many modifications that may require recertification may pertain to minor safety or operational changes that do not significantly enhance the performance of a particular gas turbine aero-engine or improve its reliability.

(a) A gas turbine aero-engine recertified as the result of incorporating any technology listed in Note 8 will be treated as a newly certified engine. Recertification that does not result from incorporation of such technology, or modifications that do not require recertification by the FAA, will not affect the current period of civil use of the engine;

(b) Modification of a gas turbine APU by incorporation of any technology listed in Note 8 will cause it to be treated as a new APU. Other modifications will not affect the current period of civil use of the APU;

(c) Modification of a "helicopter power transfer system" by incorporation of any technology listed in Note 9 will restart the control period for the "helicopter power transfer system" as though it were newly certified in a helicopter. Other modifications will not affect the current period of civil use of the "helicopter power transfer system."

Note 3: "Helicopter power transfer systems" referred to in sub-paragraph (b) above are defined as all those components that transfer power from the engine to the main and tail rotor blade(s).

Note 4: *Reserved.*

Note 5: *Reserved.*

(Advisory) Note 6: (Not Eligible for General License G-COM) Licenses are likely to be approved for export to satisfactory end-users for civil end-uses in Country Groups QWY of the following equipment:

(a) "Helicopter power transfer systems" controlled by sub-paragraph (b) above for incorporation in bona fide "civil helicopters";

(b) Gas turbine engines or APUs controlled by sub-paragraph (c) above for incorporation in bona fide "civil aircraft" or "civil helicopters";

(c) Specially designed components controlled by sub-paragraph (d) above, for use in engines, APUs or "helicopter power transfer system", as follows:

(1) Produced for use in bona fide "civil aircraft" or "civil helicopters" in appropriate quantities; *or*

(2) To support the assembly of that number of "helicopter power transfer systems", engines or APUs required for installa-

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tion in, and as standard spares for, bona fide "civil aircraft" or "civil helicopters" in current production, *or*

(3) To support current civil fleet operations.

Note 7: *Reserved.*

Note 8: Listing of aero-engine/APU design, manufacturing, construction and fabrication technologies affecting the period of bona fide civil use referred to in **Note 1**, and affecting components identified in (d)(1) above.

I. Materials and manufacturing procedures.

Ceramic, ceramic composite or composite hot-section components (combustor, turbine blades and vanes, seals, discs, flow path)

Turbine blades on basis of directional solidification or monocrystal technology

directional solidification

monocrystal technology

Turbine blades consisting of several parts connected by diffusion bonding

Fiber technology in frames or in highly stressed discs, casings, blades and vanes

Application of powder metallurgy for fan, compressor and turbine blades or vanes; discs, wheels, reduction gears, engine main shafts and frames

discs

fans, compressor and turbine blades or vanes, wheels, reduction gears, engine main shafts and frames

Cooled components on basis of electrostream or laser drilling methods

electrostream drilling

laser drilling

Electron beam drilling for small holes in turbine blades and vanes (ECCN 1080A(c) sets out the parameters for small holes)

Titanium or super alloy casting on basis of centrifugal techniques

Ceramic core casting technology for casting holes in turbine blades and vanes

II. Construction methods

Adjustable flow path geometry and associated control systems for

fans

gas generator turbine(s)

fan/power turbine(s)

propelling nozzles

(Adjustable flow path geometry and associated control systems do not include: inlet guide vanes, variable pitch fans, variable stators or bleed valves for compressors.)

Full authority or hybrid digital electronic control and respective sensor equipment.

High temperature (capable of utilizing gases heated above 1100°C) heat exchangers for preheating compressor exit air

Combustors with combustion in several stages.

Maintenance of compressor or turbine tip clearance through method employing active compensating casing technology:

compressor alone

turbine alone

compressor and turbine

Ceramic bearings

Nozzles with thrust vectoring (not including reverse thrust)

Note: 9. Listing of helicopter power transfer system design, manufacturing, construction and fabrication technologies affecting the periods of bona fide civil use referred to in **Note 1**, and affecting components identified in (d)(1) above

I. Materials and manufacturing procedures

A. Rotor heads, containing:

Elastomeric bearings (oscillating bearings using flexible synthetic material to allow the relative movement of the supported parts)

Load carrying structures applying fiber technology

Hot-isostatically pressed materials

B. Gears boxes, containing:

Novikoff-type gears

Gears or gear support structures based on materials applying directional solidification or monocrystal technology

High contact-ratio double-helical (arrow shaped) gears

Fiber technology

Hot-isostatically pressed components

Casings without shims and the interchangeable bevel gears associated with them

Gear tooth surfaces hardened by vacuum carburizing or ion nitriding

C. Drive shaft systems containing super critical drive shafts

II. Construction methods

A. Components fabricated by diffusion bonding

B. High-survivability loss-of-lubrication technology for high-speed bearings (DN equal to or greater than 2.4 million where D is expressed in millimeters and N in rpm)

Advisory Note for the People's Republic of China — Licenses are likely to be approved for export to satisfactory end-users in the People's Republic of China of aircraft and helicopters considered to be of types that are in *bona fide* normal civil use, containing equipment controlled for export by ECCNs 1485A or 1501A, provided that:

(a) Any controlled components in such aircraft or helicopters are limited to those normally installed by the manufacturer;

(b) Repair and maintenance of controlled inertial navigation systems and complete overhaul of controlled engines will be performed in a non-proscribed country or by representatives of the Western suppliers; *and*

(c) Parts controlled for export will be replaced on a one-for-one basis.

2460A Military trainer aircraft bearing "T" designations and using reciprocating engines or turbo prop engines with less than 600 horse power (s.h.p.), and specially designed component parts therefor (except reciprocating engines).

Controls for ECCN 2460A

Unit: Report aircraft in "number"; parts and accessories in "$ value."

EXAMPLE 2

ECCN 1565A

Electronic computers, "related equipment," equipment or systems containing electronic computers; and specially designed components and accessories therefor.

1565A Electronic computers, "related equipment," equipment or systems containing electronic computers; and specially designed components and accessories therefor.

Controls for ECCN 1565A

Unit: Report computers and peripherals in "number", parts and accessories in "$ value."

Validated License Required: Country Groups QSTVWYZ

GLV $ Value Limit: $5,000 for Country Groups T & V, except $0 for the People's Republic of China; $0 for all other destinations.

Processing Code: CS, MT for microprocessor-based systems.

Reason for Control: National security; foreign policy; nuclear non-proliferation. Foreign policy controls include nuclear weapons delivery non-proliferation controls on: 1. specially designed analog computers or specially designed hybrid (combined analog/digital) computers that are described in paragraphs (c) and (d), and (h) as applicable to (d), under the List below. Controls apply when these computers are combined with specially designed software, for modeling, simulation, or design integration of the following: complete rocket systems and unmanned air vehicle systems described in § 776.18(a); 2. analog or digital computers and related equipment that contain design features as described in paragraph (a), (b), and (f) under the List below; and 3. digital computers used as ancillary equipment for test facilities and equipment that are controlled by ECCNs 1361A and 1362A for nuclear weapons delivery non-proliferation purposes.

Special Licenses Available: None available for electronic computers exceeding a processing data rate of 20 million bits per second, except as noted below. None available for commodities under foreign policy controls for nuclear weapons delivery purposes (§ 776.18(c)). Electronic computers, analog or digital (including digital differential analyzers), are excluded from the Project License procedure.

> **Note:** Under the Distribution License procedure, electronic computers that do not exceed a total processing data rate of 1000 million bits per second may be exported to approved consignees in destinations listed in Supp. No. 2 to Part 773. Electronic computers that do not exceed a total processing data rate of 250 million bits per second may be exported under the Distribution License procedure to approved consignees in destinations listed in Supp. No. 3 to Part 773. Any device, apparatus or accessory that upgrades a computer within these limits may be exported under the Distribution License procedure.

> **Note:** Distribution Licenses are not valid for the export of any computers to ultimate consignees engaged directly or indirectly in any of the following activities—

(a) Designing, developing or fabricating nuclear weapons or nuclear explosive devices; or devising, carrying out, or evaluating nuclear weapons tests or nuclear explosions.

(b) Designing, assisting in the design of, constructing, fabricating or operating facilities for the chemical processing of irradiated special nuclear material, for the production of heavy water, for the separation of isotopes of any source or special nuclear material, or specially designed for the fabrication of nuclear reactor fuel containing plutonium;

(c) Designing, assisting in the design of, constructing, fabricating or furnishing equipment or components specially designed, modified or adapted for use in such facilities; or

(d) Training personnel in any of the above activities.

Technical Data: Exports of certain related technical data subject to nuclear weapons delivery non-proliferation controls require a validated license to all destinations except Canada (see § 779.4(d)(20)).

GFW Eligibility: Commodities that meet technical specifications described in Advisory Note 3, 5, 7, or 9 under this entry regardless of end-use, subject to the prohibitions contained in § 771.2(c). With regard to Advisory Note 9, the limitations imposed by paragraphs (a)(3), (b)(5)(i), (iii) and (iv), (b)(6)(iii), (b)(7)(iv), (v), and (vi), (b)(8)(i), (b)(9)(iii), and (c) are waived. However, Winchester disk drives exceeding a capacity of 130 Mbytes ARE EXCLUDED from GFW eligibility.

Special Foreign Policy Controls: Foreign policy controls apply to exports of computerized fingerprint equipment controlled by ECCN 1565A to all foreign destinations except Australia, Japan, New Zealand, and members of NATO.

Special South Africa and Namibia Controls: Foreign policy export controls apply to exports to or for use by or for government consignees in the Republic of South Africa and Namibia. See § 785.4(a)(9).

Nuclear Non-Proliferation Controls: See § 799.2, Interpretation No. 1.

> [**Note:** Refer to § 776.10 of the Regulations for specific information required to be filed with applications for QWY destinations and the People's Republic of China (PRC). For all destinations other than QWY countries or PRC, follow general application instructions and, in addition, indicate in the commodity description column on Forms BXA-622P and BXA-699P the "processing data rate." Section 776.10 of the Regulations provides the formula for calculating that rate.]

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Technical Notes:

1. Electronic computers and "related equipment" are categorized as follows:

"analog computer"—

Equipment that can, in the form of one or more continuous variables:

(a) Accept data;

(b) Process data; *and*

(c) Provide output of data.

"digital computer"—

Equipment that can, in the form of one or more discrete variables:

(a) Accept data;

(b) Store data or instructions in fixed or alterable (writable) storage devices;

(c) Process data by means of a stored sequence of instructions that is modifiable; *and*

(d) Provide output of data.

[**Note:** Modifications of a stored sequence of instructions include replacement of fixed storage devices, but not a physical change in wiring or interconnections.]

"hybrid computer"—

Equipment that can:

(a) Accept data;

(b) Process data, in both analog and digital representations; *and*

(c) Provide output of data.

"related equipment"—

Equipment "embedded" in, "incorporated" in, or "associated" with electronic computers, as follows:

(a) Equipment for interconnecting "analog computers" with "digital computers";

(b) Equipment for interconnecting "digital computers";

(c) Equipment for interfacing electronic computers to "local area networks" or to "wide area networks";

(d) Communication control units;

(e) Other input/output (I/O) control units;

(f) Recording or reproducing equipment referred to ECCN 1565A by ECCN 1572A;

(g) Displays; *or*

(h) Other peripheral equipment.

[**NOTE:** "Related equipment" containing an "embedded" or "incorporated" electronic computer, but lacking "user-accessible programmability," does not thereby fall within the definition of an electronic computer.]

2. This ECCN 1565A includes:

(a) Assemblies, modules, or printed circuit boards with mounted components referred to ECCN 1565A by ECCN 1564A;

(b) Assemblies of materials or thin film devices or devices containing them referred to ECCN 1565A by ECCN 1588A;

(c) Central processing unit—"main storage" combinations;

(d) Digital differential analyzers (incremental computers); *and*

(e) Processors for stored program control.

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List of Electronic Computers and Related Equipment Controlled by ECCN 1565A

(a) "Analog computers" and "related equipment" therefor, designed or modified for use in airborne vehicles, missiles, or space vehicles and rated for continuous operation at temperatures from below 228 K (–45°C) to above 328 K (+55°C);

(b) Equipment or systems containing "analog computers" controlled by paragraph (a);

(c) "Analog computers" and "related equipment" therefor, other than those controlled by paragraph (a), *except* those that neither:

(1) Are capable of containing more than 20 summers, integrators, multipliers or function generators; *nor*

(2) Have facilities for readily varying the interconnections of such components;

(d) "Hybrid computers" and "related equipment" therefor, with all the following characteristics:

(1) The analog section is controlled by paragraph (c);

(2) The digital section has an internal fixed or alterable storage of more than 2,048 bits; *and*

(3) Facilities are included for processing numerical data from the analog section in the digital section or vice versa;

(e) "Digital computers" or controlled "analog computers" containing equipment for interconnecting "analog computers" with "digital computers";

(f) "Digital computers" and "related equipment" therefor, with any of the following characteristics:

(1) Designed or modified for use in airborne vehicles, missiles, or space vehicles and rated for continuous operation at temperatures from below 228 K (–45°C) to above 328 K (+55°C);

(2) Designed or modified to limit electromagnetic radiation to levels much less than those required by government civil interference specifications;

(3) Designed as ruggedized or radiation hardened equipment and capable of meeting military specifications for ruggedized or radiation hardened equipment;

(4) Modified for military use; *or*

(5) Designed or modified for certifiable multi-level security or certifiable user isolation applicable to government classified material or to applications requiring an equivalent level of security;

(g) Equipment or systems containing "digital computers" controlled by paragraph (f);

(h) "Digital computers" and "related equipment" therefor, other than those controlled by paragraph (e) or (f), even when "embedded" in, "incorporated" in, or "associated" with equipment or systems:

[NOTE: The control status of these "digital computers" and "related equipment" therefor is governed by the appropriate ECCN, provided that:

(a) They are "embedded" in other equipment or systems;

(b) The other equipment or systems are described in other ECCNs of the Commodity Control List identified by the code letter "A"; *and*

(c) The export of technical data for these "digital computers" and "related equipment" is subject to control under Part 779.]

(1) Including "digital computers" and "related equipment," as follows:

(i) Designed or modified for:

[NOTE: "Digital computers" and "related equipment" containing equipment, devices or logic control for the following functions are also included.]

(A) "Signal processing";

(B) "Image enhancement";

(C) "Local area networks";

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[NOTE: For the purpose of this paragraph, data communication systems when located within a single piece of equipment (e.g., television set, car) are not considered to be designed or modified for "local area networks."]

(D) "Multi-data-stream processing";

[NOTE: For the purpose of this paragraph, "digital computers" and "related equipment" are not considered to be designed or modified for "multi-data-stream processing," if they:

(a) Utilize staged (pipelined) instruction interpretation for conventional single instruction-single data sequence processing; *or*

(b) Have an arithmetic unit implemented with bit-slice microprocessor microcircuits.]

(E) Combined recognition, understanding and interpretation of image, continuous (connected) speech or connected word text other than "signal processing" or "image enhancement" described in paragraph (h)(1)(i)(A) or (B);

(F) "Real time processing" of sensor data:

(1) Concerning events occurring outside the "computer using facility"; *and*

(2) Provided by equipment controlled by ECCN 1501, 1502, 1510 or 1518;

[NOTE: This does not include digital radar signal processing by equipment that is:

(a) Controlled by ECCN 1501(c)(2)(vi) only, for which the conditions of ECCN 1501 apply; *or*

(b) Freed from control by the two-year limit in ECCN 1501(c)(2)(vii).]

(G) Microprocessor or microcomputer development systems;

[NOTE: For microprocessor or microcomputer development systems, see ECCN 1529(b)(6).]

(H) "Fault tolerance";

[NOTE: For the purpose of this paragraph, "digital computers" and "related equipment" are not considered to be designed or modified for "fault tolerance," if they utilize:

(a) Error detection or correction algorithms in "main storage";

(b) The interconnection of two "digital computers" so that, if the active central processing unit fails, an idling but mirroring central processing unit can continue the system's functioning;

(c) The interconnection of two central processing units by data channels or by use of shared storage to permit one central processing unit to perform other work until the second central processing unit fails, at which time the first central processing unit takes over in order to continue the system's functioning; or

(d) The synchronization of two central processing units by "software" so that one central processing unit recognizes when the other central processing unit fails and recovers tasks from the failing unit.]

(I) *Reserved;*

(J) "User-accessible microprogrammability";

[NOTE: For the purpose of this paragraph, "digital computers" and "related equipment" are not considered to be designed or modified for "user-accessible microprogrammability," if this facility is limited to:

(a) Loading, reloading or inserting of "microprograms" provided by the supplier; *or*

(b) Simple loading of "microprograms", which may or may not be provided by the supplier, but that are neither designed to be accessible to the user nor accompanied by training or "software" for user accessibility.]

(K) "Data (message) switching";

(L) "Stored program controlled circuit switching", *or*

(M) "Wide area networks";

(ii) Having the following characteristics:

(A) Size, weight, power consumption and reliability or other characteristics (*e.g.*, bubble memory), that allow easy application in mobile tactical military systems; *and*

(B) Ruggedized above the level required for a normal commercial (office) environment, but not necessarily up to levels specified in paragraph (f);

(2) EXCEPT:

(i) "Digital computers "or" related equipment" therefor, provided that:

(A) They are "embedded" in other equipment or systems;

[NOTE: This does not preclude input/output control unit disk drive combinations having all the following characteristics:

(a) A "total transfer rate" not exceeding 5.5 million bit/s;

(b) Total connected "net capacity" not exceeding 320 million bit;

(c) No more than two independent drives; *and*

(d) A "total access rate" not exceeding 80 accesses per second with a maximum "access rate" of 40 accesses per second per drive;

(B) They are not the "principal element" of the other equipment or systems in which they are "embedded";

(C) The other equipment or systems are not described by other ECCNs of the Commodity Control List identified by the code letter "A, "nor covered by the International Traffic in Arms Regulations, by 10 CFR 110 or by 10 CFR 810;

(D) They have been designed and used for non-strategic applications;

(E) They are, by nature of design or performance, restricted to the particular application for which they have been designed;

(F) The "total processing data rate" of any one "embedded" "digital computer" does not exceed 54 million bit/s;

(G) The sum of the "total processing data rate" of each "embedded" "digital computer" does not exceed 100 million bit/s;

(H) The "embedded" "digital computers" or "related equipment" therefor do not include equipment or systems controlled by ECCN 1519(c) or by ECCN 1567;

(I) *Reserved;*

(J) They do not include equipment described in paragraph (h)(1)(i) (A) to (M), other than for:

(1) "SIGNAL PROCESSING" OR "IMAGE ENHANCEMENT" WHEN lacking "user-accessible programmability" and when "embedded" in medical imaging equipment; *or*

(2) "LOCAL AREA NETWORKS" THAT ARE EXCLUDED FROM control;

[NOTE: Equipment or systems are released from control under paragraph (i) only if the "digital computer' portion of the equipment or system meets the following requirements:

(a) The circuit board(s) that contain the "digital computer' are company specific products whose design intermixes on the same board the digital computer with other circuit components that are essential to the operation of the equipment or system;

(b) The circuit board(s) that contain the "digital computer' are not available as independent, general purpose, OEM products except as service spare parts; and

(c) The "digital computer' is not the principal component of the equipment.]

(ii) "Digital computers" or "related equipment" therefor, provided that:

[(h)(2)(ii)]

(A) They are "incorporated" in other equipment or systems;

(B) They are not the "principal element" of the other equipment or systems in which they are "incorporated";

(C) The other equipment or systems are not controlled by other ECCNs of the Commodity Control List identified by the code letter "A," nor covered by the International Traffic in Arms Regulations, by 10 CFR 110 or by 10 CFR 810;

(D) The "total processing data rate" of any one "incorporated" "digital computer" does not exceed 15 million bit/s;

(E) The "total internal storage available to the user" does not exceed 9.8 million bit; *and*

(F) They do not include controlled "related equipment" other than input/output control unit-disk drive combinations having all of the following characteristics:

(*1*) A "total transfer rate" not exceeding 5.5 million bit/s;
(*2*) A total connected "net capacity" not exceeding 320 million bit;
(*3*) No more than two independent drives; *and*
(*4*) A "total access rate" not exceeding 80 accesses per second with a maximum "access rate" of 40 accesses per second per drive;

(G) They do not include equipment or systems controlled by ECCN 1519(a)(2) or by ECCN 1567;

(H) They do not include equipment described in paragraph (h)(1)(ii);

(I) *Reserved.*

(J) They do not include equipment described in paragraph (h)(1)(i)(A) to (M), other than for:
(*1*) "Signal processing" or "image enhancement" when lacking "user-accessible programmability" and when "embedded" in medical imaging equipment; *or*
(*2*) "Local area networks" that are excluded from control;

[NOTE: "Digital computers" or "related equipment" "incorporated" in equipment exportable under the provisions of ECCNs 1501, 1502, 1510 or 1518, that are for internal functions that incidentally might be considered to be described by paragraph (h)(1)(i)(F) are exportable as part of that equipment. "Digital computers" or "related equipment" for the "real-time processing" of the outputs of the equipment controlled by ECCNs 1501, 1502, 1510 or 1518 and for Air Traffic Control systems are covered by this ECCN 1565.]

(iii) "Digital computers" other than those described in paragraph (h)(1), and "related equipment" having all the following characteristics:

(A) Shipped as complete systems;

(B) Designed and announced by the manufacturer for identifiable civil use;

(C) Not specially designed for any equipment controlled by any other ECCN of the Commodity Control List identified by the code letter "A," by the International Traffic in Arms Regulations, by 10 CFR 110 or by 10 CFR 810;

(D) "Total processing data rate" not exceeding 6.5 million bit/s;

(E) "Total internal storage available to the user" not exceeding 6.2 million bit; *and*

(F) They do not include a central processing unit implemented with more than two microprocessor or microcomputer microcircuits;

[NOTE: This limit does not include any dedicated microprocessor or microcomputer microcircuit used solely for display, keyboard or input/output control, or any bit-slice microprocessor microcircuit.]

(G) They do not include a microprocessor or microcomputer microcircuit with more than 16-bit word length or a bus architecture with more than 16 bit;

(H) They do not include analog-to-digital or digital-to-analog converter microcircuits exceeding the limits of ECCN 1568;

[NOTE: This does not apply in the case of direct driven video monitors for normal commercial television;]

(I) *Reserved*

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(J) They do not include controlled "related equipment" other than input/output control unit-disk drive combinations having all of the following characteristics:

(1) A "total transfer rate" not exceeding 5.5 million bit/s;
(2) A total connected "net capacity" not exceeding 200 million bit;
(3) No more than one independent drive; *and*
(4) A "total access rate" not exceeding 40 accesses per second; and

(K) They do not include equipment controlled by ECCN 1519(c) or by ECCN 1567;

(iv) Peripheral equipment, as follows, provided it lacks "user-accessible programmability":

(A) Card punches and readers;

(B) Paper tape punches and readers;

(C) Manually-operated keyboards and teletype devices;

(D) Manually-operated graphic tablets not having more than 1024 resolvable points along any axis;

(E) Impact printers;

(F) Non-impact printers, not controlled by ECCN 1572(b) or (c), that do not exceed:

(1) 2,000 lines (30 pages) per minute; *or*
(2) 600 characters per second;

(G) Plotting equipment, not controlled by ECCN 1572 (b) or (c), producing a physical record by ink, photographic, thermal, or electrostatic techniques, that has:

(1) A linear accuracy worse or equal to ±0.004%; *and*
(2) An active plotting area less than or equal to 1,700 mm (66.9 inches) by 1,300 mm (51.2 inches);

(H) Digitizing equipment, generating rectilinear coordinate data by manual or semi-automatic tracing of physical records, that has:

(1) A linear accuracy worse than or equal to ±0.004%; and
(2) An active digitizing area less than or equal to 1,700 mm (66.9 inches) by 1,300 mm (51.2 inches);

(I) *Reserved.*

(J) Optical mark recognition (OMR) equipment;

(K) Optical character recognition (OCR) equipment that:

(1) Does not contain "signal processing" or "image enhancement" equipment; *and*
(2) Is only for:

(i) Stylized OCR characters;

(ii) Other internationally standardized stylized character fonts; *or*

(iii) Other characters limited to non-stylized or hand printed numerics and up to 10 hand printed alphabetic or other characters;

(L) Displays or monitors having all of the following characteristics:

(1) Not including equipment described in paragraph (h)(1)(ii) above;

(2) Not containing cathode ray tubes controlled by ECCN 1541A;

(3) If capable of other than alpha-numeric characters, graphs and symbols, in fixed formats:

(i) Not more than 1,024 resolvable elements along any axis;

(ii) Not more than 16 shades of gray or color; *and*

(iii) The "maximum bit transfer rate" from the electronic computer to the display does not exceed 19,200 bit/s;

[NOTE: Paragraphs (h)(2)(iv)(L)*(3)*(*ii*) and (*iii*) above do not apply in the case of direct driven video monitors.]

[(h)(2)(iv)(L)]

(M) Displays or monitors having all of the following characteristics:

(1) They do not contain cathode-ray tubes;

(2) They are not capable of displaying more than 3 levels (*i.e.*, off, intermediate and full on); *and*

(3) They do not have as an integral part of the display device:

(i) Circuitry; *or*

(ii) Non-mechanical character generation devices;

(N) Displays having all of the following characteristics:

(1) Not containing cathode-ray tubes controlled by ECCN 1541;

(2) Being part of industrial or medical equipment; *and*

(3) Not specially designed for use with electronic computers;

(O) Graphic displays specially designed for signature or security checking having an active display area not exceeding 150 sq. cm.^{2} (23.25 inches^2);

(P) Light gun devices or other manual graphic input devices that are:
(1) Part of uncontrolled displays; *and*
(2) Limited to 1,024 resolvable elements along any axis;

(Q) Disk drives for non-rigid magnetic media (floppy disks) not exceeding:
(1) A "gross capacity" of 17 million bit;
(2) A "maximum bit transfer rate" of 0.52 million bit/s; *or*
(3) An "access rate" of 12 accesses per second; *or*

(R) Cassette/cartridge tape drives or magnetic tape drives not exceeding:
(1) A "maximum bit packing density" of 131 bit per mm (3,300 bit per inch) per track; *or*
(2) A "maximum bit transfer rate" of 2.66 million bit/s;

(v) Input/output interface or control units, as follows, provided they lack "user-accessible programmability":

(A) Designed for use with peripheral equipment free from control under paragraph (h)(2)(iv) above;

(B) Designed for use with digital recording or reproducing equipment specially designed to use magnetic card, tag, label or bank check recording media, free from control according to ECCN 1572(a)(ii);

(C) Designed to meet ANSI/IEEE Standard 488-1978 or IEC Publication 625-1;

(vi) Equipment for "local area networks" that do not exceed any of the following characteristics:

(A) Interfaces and protocols up to or including Layer 2 of the Open System Interconnection (OSI) reference model, which is ISO logical link control Draft International Standard (DIS) 8802/2, IEEE 802.2, 802.3, 802.4, 802.5, or equivalents;

(B) Implementations that contain functions of, or equivalent to those provided by, CCITT x.25, Level 3, protocols — none;

(C) Maximum "data signalling rate" on the common transmission medium — 2 million bit/s; *or*

(D) "Internetwork gateworks" — none;

ADVISORY NOTE 1: Reserved.

ADVISORY NOTE 2: Reserved.

ADVISORY NOTE 3: Licenses are likely to be approved for export to satisfactory end-users in Country Group QWY *AND THE PEOPLE'S REPUBLIC OF CHINA* **of "analog computers" and "related equipment" therefor controlled by paragraph (c), provided that:**

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[Advisory Note 3:] (con.)

(a) The equipment is primarily used in non-strategic applications;

(b)(1) The equipment will be used pri.arily for the specific non-strategic application for which the export would be approved:

(b)(2) The number, type, and characteristics of such equipment are reasonable for this application; *and*

(b)(3) The equipment will not be used for the design, development or production of equipment controlled by other ECCNs identified by the code letter "A," by the International Traffic in Arms Regulations, by 10 CFR 110 or by 10 CFR 810, especially for microelectronics production;

(c) The "analog computers" use neither:

(1) Optical computation devices; *nor*

(2) Acoustic wave devices controlled by ECCN 1586A, other than those exportable under the Advisory Note to ECCN 1586A;

(d) The "analog computers" are limited as follows:

(1) The rated errors for summers, inverters and integrators are not less than:

(i) Static: 0.01%

(ii) Total at 1 kHz: 0.15%

(2) The rated errors for multipliers are not less than:

(i) Static: 0.025%

(ii) Total at 1 kHz: 0.25%

(3) The rated error for fixed function generators (log x and sine cosine) is not less than:

Static: 0.1%

(4) No more than 350 operational amplifiers; *and*

(5) No more than four integrator time scales switchable during one program.

[Technical Notes to Advisory Note 3:

(1) The percentage for Advisory Note 3 (d) (1) (i) applies to the actual output voltage; all the other percentages apply to full scale, that is, from maximum negative to maximum positive reference voltages.

(2) Total errors at 1 kHz for Advisory Note 3 (d) (1) (ii) and 3 (d) (2) (ii) are to be measured with those resistors incorporated in the inverter, summer or integrator that provide the least error.

(3) Total error measurements include all errors of the unit resulting from, for example, tolerances of resistors and capacitors, tolerances of input and output impedances of amplifiers, the effect of loading, the effects of phase shift, or the generating of functions.]

ADVISORY NOTE 4: Reserved.

ADVISORY NOTE 5: Licenses are likely to be approved for export to satisfactory end-users in Country Groups QWY of "digital computers" and "related equipment" therefor, controlled by paragraph (h), provided that:

(a) The "digital computers" and the "related equipment":

(1) Have been designed and announced by a manufacturer for identifiable and dedicated medical applications;

(2) Are substantially restricted to the area of medical applications by nature of design and performance;

(3) Are the equipment necessary for the medical application;

(4) Are exported as complete systems;

[Advisory Note 5:] (con.)

(5) Will be located within one "computer using facility"; and

(6) Do not include communication control unit-"communication channel" combinations;

(b) Equipment for "signal processing," "image enhancement," or "multi-data-stream processing":

(1) Is "embedded";

(2) Is designed or modified specially for the identifiable and dedicated medical applications;

(3) Does not have "user-accessible microprogrammability"; and

(4) Does not have "user-accessible programmability" other than allowing for insertion of the original or modified "programs" supplied by the original manufacturer;

(c) The "total processing data rate" of any one "incorporated" "digital computer" does not exceed 43 million bit per second;

(d) The "digital computers" or "related equipment" therefor do not include:

(1) Equipment controlled by ECCN 1519(c) or ECCN 1567; *or*

(2) Equipment described in paragraphs (h)(1)(i)(E) to (M).

ADVISORY NOTE 6: Reserved.

ADVISORY NOTE 7: Licenses are likely to be approved for export to satisfactory end-users in Country Groups QWY *AND THE PEOPLE'S REPUBLIC OF CHINA* of spare parts for exported electronic computers or "related equipment," provided that:

(a) The parts are:

(1) "Related equipment" or specially designed components controlled by this ECCN 1565A; *or*

(2) Equipment or components controlled by other ECCNs of the Commodity Control List that are identified by the code letter 'A';

(b) The parts:

(1) Are destined for controlled equipment authorized for export under an Advisory Note, or for uncontrolled equipment;

(2) Are shipped in the minimum quantities necessary for the types and quantities of exported equipment being serviced; *and*

(3) Do not upgrade the performance of the exported equipment beyond the level:

(i) Specified in the relevant Advisory Note; *or*

(ii) Specified as uncontrolled;

(c) If the parts are 'advanced technology parts' and not eligible for export under an Advisory Note of another ECCN, the Western supplier's organization must:

(1) Replace the parts on a one-for-one exchange basis;

(2) Take measures to obtain custody of the defective parts; *and*

(3) If custody is not obtained, destroy the defective parts;

[Technical Note to Advisory Note 7: For the purpose of this paragraph, 'advanced technology parts' are either:

(a) Parts controlled by paragraph (c) (2) of ECCN 1564A;

(b) Microprocessor, microcomputer, memory, programmed logic array or arithmetic logic unit microcircuits controlled by paragraph (d) of ECCN 1564A;

[ADVISORY NOTE 7:)] (CON.)

(c) Magnetic tape heads, magnetic disk heads, magnetic drum heads, or non-exchangeable magnetic disk or drum recording media controlled by ECCN 1572A; *or*

(d) Acoustic wave devices controlled by ECCN 1586A, other than those exportable under the Advisory Note to ECCN 1586A.]

ADVISORY NOTE 8: Reserved.

[SPECIAL G-COM NOTE FOR ADVISORY NOTE 9: For the purposes of General License G-COM, the limitations imposed in Advisory Note 9 by paragraphs (a)(3), (b)(5)(i), (iii) and (iv), (b)(6)(iii), (b)(7)(iv), (v) and (vi), (b)(8)(i), (b)(9)(iii), and (c) are waived.]

ADVISORY NOTE 9: (ELIGIBLE FOR GENERAL LICENSE G-COM) Licenses are likely to be approved for export to satisfactory end-users in Country Groups QWY of "digital computers" or "related equipment" therefor controlled by paragraph (h), provided that:

(a) The "digital computers" or "related equipment" therefor:

(1) Are not described in paragraphs (h) (1) (i) (D) to (M);

(2) Are not used with "digital computers" produced in controlled areas;

[NOTE: This does not prohibit the exchange of data media.]

(3) Are exported as:

(i) Complete systems; *or*

(ii) Enhancements to a previously exported system provided that the enhanced system does not exceed the limits of paragraph (b) of this Advisory Note;

(4) Have not been designed for any equipment:

(i) Controlled by any other ECCN of the Commodity Control List identified by the code letter "A"; *and*

(ii) Are not elegible for export under an applicable Advisory Note to such other ECCN;

(5) Have been primarily designed and used for non-strategic applications;

(6) Do not have any of the following characteristics:

(i) They fall within the scope of both paragraphs (h)(1)(ii)(A) and (B); *or*

(ii) They fall within the scope of paragraph (h) (1) (ii) (A) and are microprocessor-based systems having a word length of more than 8 bit; or

(iii) They are ruggedized above the level required for a normal commercial/civil environment, but not necessarily up to the levels specified in paragraph (f) and are microprocessor-based systems having a word length of more than 8 bit;

[NOTE: Microprocessor based systems with 8-bit word length and not more than 16-bit architecture are regarded as 8-bit systems for the purpose of this paragraph (a)(6).]

(7) Do not have all of the following characteristics:

[NOTE: Paragraph (a)(7) does not apply to workstations designed for and limited to graphic arts (*e.g.*, printing, publishing).]

(i) They are stand-alone graphics work stations designed or modified for the generation, transformation, and display of 2 or 3 dimensional vectors;

(ii) They have a "total processing data rate" of the central processing unit exceeding 28 million bit per second;

(iii) They have a central processing unit, with a word length exceeding 16 bit; *and*

[Advisory Note 9:] (con.)

[NOTE: Microprocessor based systems with 16-bit word-length and not more than a 32-bit architecture are regarded as 16-bit systems for the purpose of this paragraph (a)(7)(iii).]

(iv) They exceed either of the following limits:

(A) "Block move data rate" — 800,000 pixels/sec.; *or*

(B) "Maximum bit transfer rate" of the channel for direct access to the "main storage" (Direct Memory Access or DMA channel) — 11 million bit/s;

(8) The number, type and characteristics of the equipment are reasonable for the application;

(9) The equipment is not destined for military end-use;

(b) The "digital computers" and "related equipment" therefor do not exceed any of the following limits:

(1) Central processing unit—"main storage" combinations:

(i) "Total processing data rate"—43 million bit/s;

(ii) "Total connected capacity" of "main storage"—39 million bit;

(iii) "Non-volatile storage" with "user accessible programmability," including bubble memory—none;

[NOTE: Magnetic core "main storage" is not considered "non-volatile storage" for purposes of this paragraph (b)(1)(iii).]

(iv) Number of microprocessor microcircuits implementing the central processing unit—three; *or*

[NOTE: This limit does not include any dedicated microprocessor or microcomputer microcircuit used solely for display, keyboard or input/output control, or any bit-slice microprocessor microcircuit.]

(v) "Virtual storage" capability - 512 MByte;

[NOTE 1: Supermini "digital computers" with a virtual storage" capability exceeding the level in this paragraph will not be eligible for consideration under this Note. However, other "digital computers" (*e.g.*, mainframes) may have a "virtual storage" capability exceeding this limit, and in such cases they may be considered under this Note.

2. If the "total processing data rate" does not exceed 28 million bit/s, this paragraph will not apply.]

(2) Input/output control unit—drum or disk drive combinations:

(i) "Total transfer rate"—16 million bit per second;

(ii) "Total access rate"—200 accesses per second;

(iii) Total connected "net capacity"—5,120 million bit;

(iv) "Maximum bit transfer rate" of any drum or disk drive—16 million bit/s;

(v) Number of independent drum or disk drives—six, of which five must not exceed a "maximum bit transfer rate" of 10.3 million bit/s;

(vi) Exchangeable disk packs that contain magnetic heads:

(A) "Access rate of an independent seek mechanism"—20 accesses per second;

(B) "Net capacity"—240 million bits;

(3) Input/output control unit—bubble memory combinations:

(i) Total connected "net capacity" for point of sale devices used by cashiers—9.8 million bit;

(ii) Total connected "net capacity"— for "digital computers" or "related equipment" other than those in paragraph (b)(3)(i) above-2.1 million bit.

(4) Input/output control unit—magnetic tape or cartridge-type streamer tape drive combinations:

(i) Magnetic tape drives:

[Advisory Note 9:)] (con.)

(A) "Maximum bit packing density"—246 bits/mm (6,250 bpi);

(B) Maximum read/write speed—508 cm/s (200 ips);

(C) "Maximum bit transfer rate"—10 million bit/s;

(D) Number exceeding 131 bit/mm (3,300 bit/inch)—4;

(ii) Cartridge-type streamer tape drives;

(A) Maximum total transfer rate—16 million bit/s;

(B) Number—two

(5) Communication control unit—"communication channel" combinations:

(i) "Total data signalling rate" of all "communication channels" terminating remote from the "computer using facility"—19,200 bit/s;

(ii) Maximum "data signalling rate" of any "communication channel"—9,600 bit/s;

(iii) Number of "communication channels" not dedicated full time to the given application—three, provided that:

(A) They are connected to the public switched network; *and*

(B) They have a "data signalling rate" not exceeding 1,200 bit/s at the interface between the "digital computer" and the public switched network; *and*

(C) Number of "communication channels" not limited to Telex interfaces for services conforming to CCITT recommendations F60 to 79—one.

(6) Input/output or communication control unit—directly connected data channel combinations:

(i) "Total transfer rate"—1.6 million bit/s;

(ii) "Transfer rate of any data channel"—1.6 million bit/s;

(iii) Terminations of such combinations or any extensions thereto outside the "computer using facility"—none;

(7) Communication control unit unit—"local area network" combinations:

(i) Maximum "data signalling rate" on the common transmission medium—10 million bit/s;

(ii) Interfaces and protocols up to and including Layer 2 of the Open System Interconnection (OSI) reference model, which is logical link control (Draft International Standard [DIS] 8802/2), IEEE 802.2, 802.3, 802.4, 802.5 or equivalents;

(iii) Implementations that contain functions of, or equivalent to those provided by, CCITT X .25, Level 3, protocols—none;

(iv) "Internetwork gateways"—none;

(v) "Communications channels" from such combinations to one "digital computer" located outside the "computer using facility"—one, provided that:

(A) The "communication channel" is dedicated full time to the given application;

(B) The maximum "data signalling rate" is 9,600 bit/s; *and*

(C) The "digital computer" is not designed or modified for "local area networks";

(vi) The sum of the "total processing data rate" of all controlled "digital computers" directly connected to a "local area network"—285 million bit/s.

[NOTE 1: For the purpose of this paragraph (b)(7) all "local area networks" interconnected within a "computer using facility" are considered as a single "local area network".

NOTE 2: If the maximum "data signalling rate" on the common transmission medium does not exceed 2 million bit/s, this paragraph (b)(7)(vi) will not apply.]

[Advisory Note 9:] (con.)

(8) "Other peripheral devices":

(i) Maximum bit transfer rate of any "terminal device" located remote from the "computer using facility"—19,200 bit/s;

(ii) Displays or graphic input devices:

(A) Resolvable elements along any axis—1024, and shades of gray or color—64;

(B) Resolvable elements along any axis—320, and shades of gray or color—256;

(9) Other limits on equipment: "equivalent multiply rate" for "signal processing" or "image enhancement" equipment—800,000 operations per second;

(c) Exports of "digital computers" or "related equipment" therefor covered by this Advisory Note 9 shall be subject to the following restrictions:

(1) Reserved;

(2) When the parameters of the equipment do not exceed:

(i) "Total processing data rate"—20 million bit/s;

(ii) "Maximum bit transfer rate" of any independent drum or disc drive—10.3 million bit/s—none;

Then the quantity limitations on the export of equipment per transaction imposed by paragraph (c)(3) do not apply.

(3) When the parameters of any equipment involved in one transaction exceed any limit of paragraph (c)(2) above, then:

The "cumulative total processing data rate" must not exceed 285 million bit/s;

(i) The "cumulative total processing data rate" must not not exceed 285 million bit/s;

[NOTE: When calculating the "cumulative total processing data rate", the "total processing data rates" of any stand-alone microcomputers are not to be included.]

(ii) The equipment must be used primarily for the specifics non-strategic application for which the export would be approved; *and*

(iii) The equipment must not be used for the design, development, or production of controlled items, especially not in microelectronics.

(4) When the "processing data rate" of any equipment involved in one transaction exceeds 28 million bit/s, then:

(i) The conditions of paragraph (c)(3) of this Advisory Note would apply;

(ii) The end-user will not be directly involved in significant strategic activities, including intelligence activities;

(iii) The end-user will not be affiliated with organizations that foster diversions to strategic purposes;

(iv) The equipment will not measurably enhance the strategic activities of the end-user.

ADVISORY NOTE 10: Reserved.

ADVISORY NOTE 11: Reserved.

ADVISORY NOTE 12: (NOT ELIGIBLE FOR GENERAL LICENSE G-COM) Licenses will receive favorable consideration for export to satisfactory end-users in Country Groups QWY of "digital computers" or "related equipment" therefor controlled by paragraph (h), provided that:

[Advisory Note 12:] (con.)

(a) The "digital computers" or "related equipment" therefor:

(1) Are not described in paragraphs (h)(1)(i)(D) to (M);

(2) Are not used with "digital computers" produced in controlled areas;

[NOTE: This does not preclude the exchange of data media.]

(3) Are exported as:

(i) Complete systems; *or*

(ii) Enhancements to a previously exported system provided that the enhanced system does not exceed the limits of paragraph (b) of this Note;

(4) Have not been designed for any equipment:

(i) Controlled by another ECCN of the Commodity Control List identified by the code letter "A"; *and*

(ii) Are not eligible for export under an applicable Advisory Note to such other ECCN;

(5) Have been primarily designed and used for non-strategic applications; *and*

(6) Do not have any of the following characteristics:

(i) They fall within the scope of both paragraphs (h)(1)(ii)(A) and (B); *or*

(ii) They fall within the scope of paragr[illegible]1)(ii)(A) and are microprocessor-based systems having a word length of more than 16 bit; *or*

(iii) They are ruggedized above the level required for a normal commercial/civil environment, but not necessarily up to the levels specified in paragraph (f) and are microprocessor-based systems having a word length of more than 16 bit;

[NOTE: Microprocessor-based systems with 16-bit word length and not more than a 32-bit architecture are regarded as 16-bit systems for the purpose of this paragraph (a)(6).]

(7) Do not have all of the following characteristics:

[NOTE: Paragraph (a)(7)(iv) does not apply to workstations designed for and limited to graphic arts (*e.g.*, printing, publishing.]

(i) They are stand-alone graphics work stations designed or modified for the generation, transformation, and display of two or three dimensionals vectors;

(ii) They have a "total processing data rate" of the central processing unit exceeding 48 million bit per second;

(iii) They have a central processing unit, with a word length exceeding 16 bit; *and*

[NOTE: Microprocessor based systems with 16-bit word-length and not more than a 32-bit architecture are regarded as 16-bit systems for the purpose of this paragraph (a)(7)(iii).]

(iv) They exceed either of the following limits:

(A) "Block move data rate"—1,500,000 pixels/sec; *or*

(B) "Maximum bit transfer rate" of the channel for direct access to the "main storage" (Direct Memory Access or DMA channel)—15 million bit per second;

(8)(i) The equipment is appropriate for the stated end-use;

(ii) The end-users are:

(A) Not directly involved in significant strategic, including intelligence, activities; *or*

(B) Not affiliated with organizations that foster diversion to strategic purposes;

(iii) The equipment will not significantly enhance the strategic activities of the end-user.

[Advisory Note 12:] (con.)

(b) The "digital computers" or "related equipment" therefor do not exceed any of the following limits:

(1) Central processing unit—"main storage" combinations:

(i) "Total processing data rate"—78 million bit per second;

(ii) "Total connected capacity" of "main storage"—76.7 million bit;

(iii) "Non-volatile storage" with "user accessible programmability," including bubble memory—none;

[NOTE: Magnetic core "main storage" is not considered "non-volatile storage" for purposes of this paragraph.]

(iv) "Virtual storage" capability—512 MByte;

[NOTE: Supermini "digital computers" with a "virtual storage" capability exceeding the level in this paragraph (b)(1)(iv) will not be eligible for consideration under this Note. It is recognized, however, that other "digital computers" (e.g., mainframes) may have a "virtual storage" capability exceeding this limit and in such cases they may be considered under this Note.]

(2) Input/output control unit—drum or disk drive combinations:

(i) "Total transfer rate"—22 million bit;

(ii) "Total access rate"—360 accesses per second;

(iii) Total connected "net capacity"—14,000 million bit;

(iv) "Maximum bit transfer rate" of any drum or disk drive—20.6 million bit;

(v) Number of drum or disc drives exceeding a "maximum bit transfer rate" of 10.3 million bit/s—four;

(vi) Exchangeable disk-packs that contain magnetic heads:

(A) "Access rate" of an independent seek mechanism—29 accesses per second;

(B) "Net capacity"—640 million bit;

(3) Input/output control unit—bubble memory combinations:

(i) Total connected "net capacity" for point of sale devices used by cashiers—9.8 million bit;

(ii) Total connected "net capacity" for "digital computers" or "related equipment" other than those in paragraph (b)(3)(i) above—2.1 million bit;

(4) Input/output control unit—magnetic tape or cartridge-type streamer tape drive combinations:

(i) Magnetic Tape Drives;

(A) "Maximum bit packing density"—246 bit/mm (6,250 bpi);

(B) Maximum read/write speed—508 cm/s (200 ips);

(C) "Maximum bit transfer rate"—10 million bit/s;

(D) Number exceeding 131 bits/mm (3,300 bpi)—4;

(ii) Cartridge-type streamer tape drives;

(A) Maximum "total transfer rate" 16 million bit/s.

(B) Number—two;

(5) Communication control unit—"communication channel" combinations:

(i) "Total data signalling rate" of all "communication channels" terminating remote from the "computer using facility"—38,400 bit/s;

(ii) Maximum "data signalling rate" of any "communication channel"—19,200 bit/s;

[Advisory Note 12:] (con.)

(iii) Number of "communication channels" not dedicated full time to the given application—six, provided that:

(A) They are connected to the public switched network;

(B) They have a "data signalling rate" not exceeding 1200 bit/s at the interface between the "digital computer" and the public switched network; and

(C) Number of "communication channels" not limited to telex interfaces for services conforming to CCITT Recommendations F60 to 79—two.

(6) Input/output or communication control unit—directly connected data channel combinations:

(i) "Total transfer rate"—3.6 million bit/s;

(ii) "Transfer rate of any data channel"—3.6 million bit/s;

(iii) Terminations of such combinations or of any extensions thereto outside the "computer using facility"—none;

(7) Communication control unit—"local area network" combinations:

(i) "Maximum data signalling rate" on the common transmission medium—10 million bit/s;

(ii) Interfaces and protocols up to and including Layer 2 of the Open System Interconnection (OSI) reference model, which is ISO logical link control Draft International Standard (DIS) 8802/2, IEEE 802.2, 802.3, 802.4, 802.5 or equivalents;

(iii) Implementations that contain functions of, or equivalent to those provided by, CCITT x .25, Level 3, protocols—none;

(iv) "Internetwork gateways"—none;

(v) "Communications channels" from such combinations to one "digital computer" located outside the "computer using facility"—one, provided that:

(A) The "communication channel" is dedicated full time to the given application;

(B) The maximum "data signalling rate" is 19,200 bit/s; *and*

(C) The "digital computer" is not designed or modified for "local area networks";

(vi) The sum of the "total processing data rate" of all controlled "digital computers" directly connected to a "local area network"—285 million bit/s.

[NOTE: Only one "digital computer" may exceed 54 million bit/s.]

[NOTE 1: For the purpose of this paragraph (b)(7)(vi) all "local area networks" interconnected within a "computer using facility" are considered as a single "local area network".]

[NOTE 2: If the maximum "data signalling rate" on the common transmission medium does not exceed 2 million bit/s, this paragraph (b)(7)(vi) will not apply.]

(8) "Other peripheral devices":

(i) "Maximum bit transfer rate" of any "terminal device" located remote from the "computer using facility"—19,200 bit/s;

(ii) Displays or graphic input devices:

(A) Resolvable elements—512 x 640, and shades of gray or color—256; *or*

[NOTE: Paragraph (b)(8)(ii)(A) does not prohibit the export under this Note of displays for systems specially designed for and limited to graphic arts (*e.g.*, printing, publishing) that have displays not exceeding 576 x 900 resolvable elements and 256 shades of gray or color.]

(B) Resolvable elements—1024 x 1280 and shades of gray or color—64;

[Advisory Note 12:] (con.)

[NOTE: Paragraph (b)(8)(ii)(B) does not prohibit the export under this Note of displays for systems specially designed for and limited to graphic arts (*e.g.*, printing, publishing) that have displays not exceeding 1,560 x 1024 resolvable elements and 64 shades of gray or color.]

(9) "Signal processing" or "image enhancement" equipment:

(i) "Equivalent multiply rate"—1,500,000 operations per second;

(ii) Output—10 million image elements per second;

(c) Exports of "digital computers" or "related equipment" therefor covered by this Advisory Note 12 shall be subject to the following restrictions:

(1) In all cases:

(i) A responsible representative of the end-user(s) or the importing agency must submit a signed statement describing the end-use and certifying that:

(A) The "digital computers" or "related equipment" will:
(*1*) Be used only for civil applications; *and*
(*2*) Not be reexported or otherwise disposed of without permission from the government of the exporting country;

(B) Responsible Western representatives of the supplier will:
(*1*) Have the right of access to the "computer using facility" and all equipment, wherever located, during normal working hours and at any other time the equipment is operating; *and*
(*2*) Be furnished information demonstrating continued authorized application of the equipment; *and*

(C) These Western representatives will be notified of any significant change of application or of other facts, on which the license was based;

(ii) A full description must be provided of:

(A) The equipment; *and*

(B) Its intended application and workload; *and*

(iii) A complete identification of all end-users and their activities must be provided;

(2) Reserved.

(3) There is no visitation requirement when the parameters of the equipment do not exceed:

(i) "Total processing data rate"—54 million bit/s; *and*

(ii) "Total connected capacity" of "main storage"—39 million bit;

(4) When the parameters of the equipment exceed either limit of paragraph (c)(3) above, the supplier will:

(i) Have a responsible Western representative visit and inspect the "computer using facility" and all equipment, wherever located, at least quarterly for three years; *and*

(ii) Report periodically to the Office of Export Licensing whether the "digital computers" and "related equipment" therefor are still being used for the approved purposes at the authorized location.

[NOTE: The visitation requirements of paragraph (c) (4) above will be waived for remote "terminal devices" if they consist only of peripheral equipment freed from control by paragraph (h) (2) (iv) above.]

ADVISORY NOTE 13: Reserved.

ADVISORY NOTE 14: Reserved.

ADVISORY NOTE 15: Reserved.

NOTE 16: The following are definitions of terms used in ECCN 1565A:

"ACCESS RATE"—

(a) Of an input/output control unit—drum or disk drive combination (R_{ad})—

Either the "access rate" of an input/output control unit (R_{ac}) or the sum of the individual "access rates" of all independent seek mechanisms (R_{as}), whichever is smaller.

Thus: $R_{ad} = \min (R_{ac}; \text{SUM } R_{as})$

(b) Of an input/output control unit (R_{ac})—

(1) With rotational position sensing (rps), the sum of the individual "access rate" of all independent seek mechanisms (R_{as}) connected to the control unit.

Thus: $R_{ac} = \text{SUM } R_{as}$ (with rps); *or*

(2) Without rotational position sensing (rps), **the number (C) of independent read/write channels connected to the control unit divided by the least 'latency time' (t_{lmin}) of any connected independent seek mechanism.**

Thus: $R_{ac} = \dfrac{C}{t_l\text{min}}$ (without rps)

(c) Of a seek mechanism (R_{as})—

The reciprocal of the 'average seek time' (t_{as}) of the seek mechanism.

Thus: $R_{as} = \dfrac{1}{t_{as}}$

'average access time' of a seek mechanism (t_{aa})—

The sum of the 'average seek time' (t_{as}) and the 'latency time' (t_l).

Thus: $t_{aa} = t_{as} + t_l$

'average seek time' (t_{as})—

The sum of the 'maximum seek time' (t_{smax}) and twice the 'minimum seek time' (t_{smin}), divided by three.

Thus: $T_{as} = \dfrac{T_{smax} + 2t_{smin}}{3}$

'maximum seek time' (t_{smax})—

(1) For fixed head devices, it is zero; *or*

(2) For moving head or moving media devices, the rated time to move between the two most widely separated tracks.

'minimum seek time' (t_{smin})—

(1) For fixed head devices, it is zero; *or*

(2) For moving head or moving media devices, the rated time to move from one track to an adjacent track.

'latency time' (t_l)—

The rotational period divided by twice the number of independent read/write heads per track.

"ANALOG COMPUTER"—

Equipment that can, in the form of one or more continuous variables:

[Note 16:] (con.)

(a) Accept data;

(b) Process data; *and*

(c) Provide output of data.

"ASSEMBLY"—

A number of components (i.e., circuit elements, discrete components, microcircuits) connected together to perform a specific function or functions, replaceable as an entity (and normally capable of being disassembled).

"ASSOCIATED" with equipment or systems—

(a) Can feasibly be either:

(1) Removed from such equipment or systems; *or*

(2) Used for other purposes; *and*

(b) Is not essential to the operation of such equipment or systems.

"BLOCK MOVE DATA RATE"—

The maximum number of pixels that can be moved per second from one location to another in the storage that functions as the frame buffer.

"COMMUNICATION CHANNEL"—

The transmission path or circuit including the terminating transmission and receiving equipment (modems) for transferring digital information between distant locations.

"COMPUTER OPERATING AREA"—

The immediate contiguous and accessible area around the electronic computer, where the normal operating, support and service functions take place.

"COMPUTER USING FACILITY"—

The end-user's contiguous and accessible facilities:

(a) Housing the "computer operating area" and those end-user functions that are being supported by the stated application of the electronic computer and its "related equipment"; *and*

(b) Not extending beyond 1,500 meters in any direction from the center of the "computer operating area".

"CUMULATIVE TOTAL PROCESSING DATA RATE"—

The sum of all "total processing data rates" in a given transaction.

"DATA DEVICE"—

Equipment capable of transmitting or receiving sequences of digital information.

"DATA (MESSAGE) SWITCHING"—

[Note 16:] (con.)

The technique, including but not limited to store-and-forward or packet switching, for:

(a) Accepting data groups (including message, packets, or other digital or telegraphic information groups that are transmitted as a composite whole);

(b) Storing (buffering) data groups as necessary;

(c) Processing part or all of the data groups, as necessary, for the purpose of:

(1) Control (routing, priority, formatting, code conversion, error control, retransmission or journaling);

(2) Transmission; *or*

(3) Multiplexing; *and*

(d) Retransmitting (processed) data groups when transmission or receiving facilities are available.

"DATA SIGNALLING RATE"—

The rate as defined in ITU Recommendation 53-36, taking into account that, for non-binary modulation, baud and bit per second are not equal. Binary digits for coding, checking, and synchronization function are included.

[NOTE: It is the maximum one-way rate, *i.e.*, the maximum rate in either transmission or reception.]

"DIGITAL COMPUTER"—

Equipment that can, in the form of one or more discrete variables:

(a) Accept data;

(b) Store data or instructions in fixed or alterable (writable) storage devices;

(c) Process data by means of a stored sequence of instructions that is modifiable; *and*

(d) Provide output of data.

[NOTE: Modifications of a stored sequence of instructions include replacement of fixed storage devices, but not a physical change in wiring or interconnections.]

"EMBEDDED" in equipment or systems—

Can feasibly be neither:

(a) Removed from such equipment or systems; *nor*

(b) Used for other purposes.

"EQUIVALENT MULTIPLY RATE"—

The maximally achievable number of multiplication operations that can be performed per second considering that, in the case of simultaneous multiplication operations, all multiplication rates have to be summed in order to arrive at the "equivalent multiply rate":

(a) Assuming

(1) Optimal operand locations in the "most immediate storage"; *and*

(2) Operand lengths at least 16 bit, or more if this allows for faster operation; *and*

(b) Neglecting

(1) Set-up operations;

(2) Pipeline filling operations;

[Note 16:] (con.)

(3) Initialization;

(4) Interrupts; *and*

(5) Data reordering times.

[NOTE: Simultaneous multiplication operations can occur because of:

(a) Multiple arithmetic units for operations such as complex multiplication, convolution or recursive filtering;

(b) Parallel pipelining;

(c) More than one arithmetic unit in one data processing unit; *or*

(d) More than one data processing unit in one system.]

"FAULT TOLERANCE"—

The capability to perform correctly without human intervention after failure of any "assembly", so that there is no single point in the system the failure of which could cause catastrophic failure of the system's functioning.

"FIRMWARE"—

See "microprogram".

"GATEWAY"—

The function, realized by any combination of equipment and "software", to carry out the conversion of conventions for representing, processing or communicating information used in one system into the corresponding but different conventions used in another system.

"GROSS CAPACITY"—

The product of:

(a) The maximum number of binary digit (bit) positions per unformatted track; *and*

(b) The total number of tracks including spare tracks and tracks not accessible to the user.

"HYBRID COMPUTER"—

Equipment that can:

(a) Accept data;

(b) Process data, in both analog and digital representations; *and*

(c) Provide output of data.

"IMAGE DIGITIZER"—

A device for directly converting an analog representation of an image into a digital representation.

"IMAGE ENHANCEMENT"—

The processing of externally derived information-bearing images by algorithms such as time compression, filtering, extraction, selection, correlation, convolution or transformations between domains (*e.g.*, Fast Fourier Transform or Walsh Transform). This does not include algorithms using only linear or rotational transformation of a single image, such as translation, feature extraction, registration or false coloration.

[Note 16:] (con.)

"INCORPORATED" in equipment or systems—

(a) Can feasibly be either:

(1) Removed from such equipment or systems; *or*

(2) Used for other purposes; *and*

(b) Is essential to the operation of such equipment or systems.

"INTERNETWORK GATEWAY"—

A "gateway" for two systems that are themselves "local area networks", "wide area networks" or both.

"LOCAL AREA NETWORK"—

A data communication system that:

(a) Allows an arbitrary number of independent "data devices" to communicate directly with each other; *and*

(b) Is confined to a geographical area of moderate size (*e.g.* office building, plant, campus, warehouse).

"MAIN STORAGE"—

The primary storage for data or instructions for rapid access by a central processing unit. It consists of the internal storage of a "digital computer" and any hierarchical extension thereto, such as cache storage or non-sequentially accessed extended storage.

"MAXIMUM BIT PACKING DENSITY"—

The density of recording specified in accordance with the appropriate ANSI or ISO Standard (*e.g.* ANSI X3.14-1979, ISO 1862-1975; ANSI X3.22-1973, ISO 1873-1976; ANSI X3.39-1973, ISO 3788-1976; ANSI X3.48-1977, ISO 3407-1976; ANSI X3.56-1977, ISO 4057-1979; ANSI X3.54-1976).

"MAXIMUM BIT TRANSFER RATE"—

(a) Of a drum or disk drive (R_{tdmax}) is the product of:

(1) The maximum number of binary digit (bit) positions per unformatted track; *and*

(2) The number of tracks that simultaneously can be read or written;

divided by the rotational period;

(b) Of a magnetic tape drive (R_{tmax}) is the product of:

(1) The "maximum bit packing density";

(2) The number of data bits per character (ANSI) or per row (ISO); *and*

(3) The maximum tape read write speed.

"MICROPROGRAM"—

A sequence of elementary instructions, maintained in a special storage, the execution of which is initiated by the introduction of its reference instruction into an instruction register.

"MOST IMMEDIATE STORAGE"—

The portion of the "main storage" most directly accessible by the central processing unit:

[Note 16:] (con.)

(a) For single level "main storage," this is the internal storage; *or*

(b) For hierarchical "main storage", this is:

(1) The cache storage;

(2) The instruction stack; *or*

(3) The data stack.

"MULTI-DATA-STREAM PROCESSING"—

The "microprogram" or equipment architecture technique that permits processing two or more data sequences under the control of one or more instruction sequences by means such as:

(a) Parallel processing;

(b) Structured arrays of processing elements.

(c) Single Instruction Multiple Data (SIMD) operations; *or*

(d) Multiple Instruction Multiple Data (MIMD) operations;

"NET CAPACITY"—

Of a drum, disk or cartridge type streamer tape drive, or a bubble memory:

The total capacity designed to be accessible to the "digital computer" excluding error control bits.

"NON-VOLATILE STORAGE"—

A storage device the contents of which are not lost when power is removed.

"OTHER PERIPHERAL DEVICE"—

A "data device" that is:

(a) Peripheral to a central processing unit—"main storage" combination; *and*

(b) Not an input output control unit—drum, disk or magnetic tape drive or bubble memory combination.

"PRINCIPAL ELEMENT"—

A "digital computer" or "related equipment" that is:

(a) Either "embedded" or "incorporated" in another equipment or system; *and*

(b) In replacement value more than 35% of the replacement value of the total equipment or system, *i.e.* including the "digital computer" or "related equipment".

"PROGRAM"—

A sequence of instructions to carry out a process in, or convertible into, a form executable by an electronic computer.

"REAL TIME PROCESSING"—

Processing of data by an electronic computer in response to an external event according to time requirements imposed by the external event.

[Note 16:] (con.)

"RELATED EQUIPMENT"—

Equipment "embedded" in, "incorporated" in, or "associated" with electronic computers, as follows:

(a) Equipment for interconnecting "analog computers" with "digital computers";

(b) Equipment for interconnecting "digital computers";

(c) Equipment for interfacing electronic computers to "local area networks" or to "wide area networks";

(d) Communication control units;

(e) Other input/output (I-O) control units;

(f) Recording or reproducing equipment referred to ECCN 1565 by ECCN 1572;

(g) Displays; *or*

(h) Other peripheral equipment.

> **[NOTE: "Related equipment" that contains an "embedded" or "incorporated" electronic computer, but lacks "user-accessible programmability", does not thereby fall within the definition of an electronic computer.]**

"SIGNAL PROCESSING"—

The processing of externally derived information-bearing signals by algorithms such as time compression, filtering, extraction, selection, correlation, convolution or transformations between domains (*e.g.* Fast Fourier Transform or Walsh Transform).

"SOFTWARE"—

A collection of one or more "programs" or "microprograms" fixed in any tangible medium of expression.

"STORED PROGRAM CONTROLLED CIRCUIT SWITCHING"—

The technique for establishing, on demand and until released, a direct (space division switching) or logical (time division switching) connection between circuits based on switching control information derived from any source or circuit and processed according to the stored program by one or more electronic computers.

"TERMINAL DEVICE"—

A "data device" that:

(a) Does not include process control sensing and actuating devices; *and*

(b) Is capable of:

  (1) Accepting or producing a physical record;

  (2) Accepting a manual input; *or*

  (3) Producing a visual output.

> **[NOTE: Normal groupings of such equipment (*e.g.*, a combination of paper tape punch/reader and printer), connected to a single data channel or "communication channel", shall be considered as a single "terminal device".]**

"TOTAL ACCESS RATE" (R_{ATOT})—

The sum of the individual "access rates" of all input/output control unit—drum or disk drive combinations (R_{ad}) provided with the system that can be sustained simultaneously assuming the configuration of equipment that would maximize this "total access rate".

[Note 16:] (con.)

Thus: $R_{stot} = SUM\ R_{sd}$

"TOTAL CONNECTED CAPACITY"—

The storage capacity excluding error control bits, word marker bits, and flag bits.

[NOTE: The following are illustrative examples of how to calculate various parameters:

Part A. Conversion of Byte to bit in computing storage limits:

(a) 1 M Byte = $(1{,}024)^2$ Byte = 1,048,576 Byte

(b) 1 K Byte = 1,024 Byte

(c) 1 Byte = 8 bit or 9 bit

Part B. Limits on "total connected capacity" of "main storage":

The limits in the various Notes to ECCN 1565A assume a 9-bit Byte and an appropriate amount of cache storage (16, 32, 48 or 64 KByte), as follows (although other combinations within these limits would be permissible):

Internal Storage (MByte)	Cache Storage (KByte)	"Total Connected Capacity" (million bit)
0.25	16	2.5
0.5	16	4.9
0.75	32	7.4
1.0	32	9.8
1.5	48	14.6
2.0	48	19.4
2.5	64	24.2
4.0	64	39.0
8.0	64	76.7]

"TOTAL DATA SIGNALLING RATE"—

The sum of the individual "data signalling rates" of all "communication channels" that:

(a) Have been provided with the system; *and*

(b) Can be sustained simultaneously assuming the configuration of the equipment that would maximize this sum of rates.

"TOTAL INTERNAL STORAGE AVAILABLE TO THE USER"—

The sum of the individual capacities of all internal user-alterable or user-replaceable storage devices that may be:

(a) Included in the equipment at the same time; *and*

(b) Used to store "software" instructions or data.

"TOTAL PROCESSING DATA RATE"—

(a) Of a single central processing unit, is its 'processing data rate';

(b) Of multiple central processing units that do not share direct access to a common "main storage," is:

The individual "processing data rate" of each central processing unit, *i.e.* each unit is separately treated as a single central processing unit as in (a) above; *or*

(c) Of multiple central processing units that partially or fully share direct access to a common "main storage" at any level is the sum of:

[Note 16:] (con.)

(1) The highest of the individual 'processing data rates' of all central processing units; *and*

(2) 0.75 times the 'processing data rate' of each remaining central processing unit, sharing the same "main storage"; assuming the configuration of equipment that would maximize this sum of rates.

'processing data rate'—

The maximum of either:

(a) The 'floating point processing data rate' (R_f); *or*

(b) The 'fixed point processing data rate' (R_x)

[NOTE: The 'processing data rate' of a central processing unit implemented with two or more microprocessor microcircuits, not including any dedicated microprocessor microcircuit used solely for display, keyboard or input output control, is the sum of the individual 'processing data rates' of all these microprocessor microcircuits.]

'floating point processing data rate' (R_f)—

The sum of:

(1) 0.85 times the 'number of bits in a fixed point instruction (n_{ix}) or 0.85 times the "number of bits in a floating point instruction' (n_{if}), if no fixed point instructions are implemented;

(2) 0.15 times the 'number of bits' in a floating point instruction' (n_{if});

(3) 0.40 times the 'number of bits in a fixed point operand' (n_{ox}) or 0.40 times the 'number of bits in a floating point operand' (n_{of}), if no fixed point instructions are implemented; *and*

(4) 0.15 times the 'number of bits in a floating point operand' (n_{of});

divided by the sum of:

(1) 0.85 times the 'execution time' for a fixed point addition (t_{ax}) or for a floating point addition (t_{af}), if no fixed point instructions are implemented;

(2) 0.09 times the 'execution time' for a floating point addition (t_{af}); *and*

(3) 0.06 times the 'execution time' for a floating point multiplication (t_{mf}) or for the fastest available subroutine (t_{msub}) to simulate a floating point multiplication instruction, if no floating point multiplication instructions are implemented.

$$\text{Thus: } R_f = \frac{(0.85)n_{ix} + (0.15)n_{if} + (0.40)n_{ox} + (0.15)n_{of}}{(0.85)t_{ax} + (0.09)t_{af} + (0.06)t_{mf}} \text{ ; or}$$

if no fixed point instructions are implemented then:

$$R_f = \frac{(1.00)n_{if} + (0.55)n_{of}}{(0.94)t_{af} + (0.06)t_{mf}} \text{ ; or}$$

if no floating point multiplication instructions are implemented ($t_{mf} = t_{msub}$) then:

$$R_f = \frac{(0.85)n_{ix} + (0.15)n_{imf} + (0.40)n_{ox} + (0.15)n_{of}}{(0.85)t_{ax} + ((0.09)t_{af} + (0.06)t_{msub}}$$

[NOTE: If a "digital computer" has neither floating point addition nor floating point multiplication instructions, then its 'floating point processing data rate' is equal to zero.]

'fixed point processing data rate' (R_x)—

The sum of:

(1) 0.85 times the number of bits in a fixed point addition instruction (n_{iax});

(2) 0.15 times the 'number of bits in a fixed point multiplication instruction' (n_{imx}); *and*

[Note 16:] (con.)

(3) 0.55 times the 'number of bits in a fixed point operand' (n_{ox}):

divided by the sum of:

(1) 0.85 times the 'execution time' for a fixed point addition (t_{ax}); *and*

(2) 0.15 times the 'execution time' for a fixed point multiplication (t_{mx}) or for the fastest available subroutine (t_{msub}) to simulate a fixed point multiplication instruction if no fixed point multiplication instructions are implemented.

Thus: $$R_x = \frac{(0.85)n_{iax} + (0.15)n_{imx} + (0.55)n_{ox}}{(0.85)t_{ax} + (0.15)t_{mx}};$$

or

if no fixed point multiplication instruction are implemented ($t_{mx} = t_{msub}$) then:

$$R_x = \frac{(0.85)n_{iax} + (0.15)n_{imx} + (0.55)n_{ox}}{(0.85)t_{ax} + (0.15)t_{msub}}$$

[NOTE: If a "digital computer" has neither fixed point addition nor fixed point multiplication instructions, then its 'fixed point processing data rate' is equal to zero.]

'number of bits in a:

Fixed point addition instruction' (n_{iax})—

Fixed point multiplication instruction' (n_{imx})—

Floating point addition instruction' (n_{iaf})—

Floating point multiplication instruction' (n_{imf})—

The appropriate shortest single fixed or floating point instruction length that permits full direct addressing of the "main storage".

[NOTES 1: When multiple instructions are required to simulate an appropriate single instruction, the number of bits in the above instructions is defined as 16 bits plus the number of bits (b_{iax}, b_{imx}, b_{iaf}, b_{imf}) that permits full direct addressing of the "main storage".

Thus:

$$n_{iax} = 16 + b_{iax}$$
$$n_{imx} = 16 + b_{imx}$$
$$n_{iaf} = 16 + b_{iaf}$$
$$n_{imf} = 16 + b_{imf}$$

2: If the addressing capability of an instruction is expanded by using a base register, then the 'number of bits in an instruction, fixed or floating point, addition or multiplication' is the number of bits in the instruction with the standard address length including the number of bits necessary to use the base register.]

'number of bits in fixed point operand' (n_{ox})—

(a) The shortest fixed point operand length; *or*

(b) 16 bits;

whichever is greater.

'number of bits in a floating point operand' (n_{of})—

(a) The shortest floating point operand length; *or*

(b) 30 bits;

whichever is greater.

'execution time'

[Note 16:] (con.)

(a) The time certified or openly published by the manufacturer for the execution of the fastest appropriate instruction, under the following conditions:

(1) No indexing or indirect operations are included;

(2) The instruction is in the "most immediate storage";

(3) One operand is in the accumulator or in a location of the "most immediate storage" that is acting as the accumulator;

(4) The second operand is in the "most immediate storage"; *and*

(5) The result is left in the accumulator or the same location in the "most immediate storage" that is acting as the accumulator;

(b) If only the maximum and minimum execution times of the instructions are published, the sum of:

(1) The maximum execution time of an instruction (t_{max}); *and*

(2) Twice the minimum execution time of this instruction (t_{min});

divided by three.

Thus:

$$t = \frac{t_{max} + 2t_{min}}{3}$$

(t stands for any of the values t_{as} t_{af}, t_{ms} or t_{mf})

(c) For central processing units that simultaneously fetch more than one instruction from one storage location: The average of the 'execution times' when executing instructions fetched from all possible locations within the stored word.

(d) If the longest fixed point operand length is smaller than 16 bits, then use the time required for the fastest available subroutine to simulate a 16 bit fixed point operation.

[NOTES 1: If the addressing capability of an instruction is expanded by using a base register, then the 'execution time' shall include the time for adding the content of the base register to the address part of the instruction.

2: When calculating 'processing data rate' for computers with cache sizes smaller than 64 K Bytes, the 'execution time' of the appropriate instructions will be calculated as follows:

(cache hit rate) × ('execution time' when both instruction and operand are in cache storage) + (1 - cache hit rate) × ('execution time' when neither instruction nor operand are in cache storage), the cache hit rate being:

1.00 for cache size of 64 KByte

0.95 for cache size of 32 KByte

0.90 for cache size of 16 KByte

0.85 for cache size of 8 KByte

0.75 for cache size of 4 KByte]

'total transfer rate'—

(a) Of the input/output control unit—drum, disk or cartridge-type streamer tape drive combinations (R_{idtot}):

The sum of the individual 'transfer rates' of all input/output control unit—drum, disk or cartridge-type streamer tape drive combinations (R_{id}) provided with the system that can be sustained simultaneously assuming the configuration of equipment that would maximize this sum of rates.

Thus: R_{idtot} = SUM R_{id}

'transfer rate'—

(1) Of an input/output control unit—drum or disk drive combination (R_{id}), the smaller of either:

[NOTE: For the 'transfer rate' of an input/output control unit—cartridge-type streamer tape drive combination, see paragraph (b) below.]

[Note 16:] (con.)

(i) **The input/output control unit 'transfer rate' (R_{tc});** *or*

(ii) **The sum of the individual 'transfer rates' of all independent seek mechanisms (R_{ts}).**

Thus: $R_{td} = \min (R_{tc}; \text{SUM } R_{ts})$

(2) **Of an input/output control unit (R_{tc}):**

(i) **With rotational position sensing (rps), is the product of:**

(A) **The number of independent read/write channels (C);** *and*

(B) **The greatest "maximum bit transfer rate" ($R_{tsmaxmax}$) of all independent seek mechanisms;** *or*

(ii) **Without rotational position sensing (rps), is two-thirds of this product.**

Thus: $R_{tc} = C \times R_{tsmaxmax}$ (with rps); *or*

$R_{tc} = \frac{2C}{3} \times R_{tsmaxmax}$ (without rps).

(3) **Of an independent seek mechanism (R_{ts}):**

The product of:

(i) **The "maximum bit transfer rate" (R_{tsmax});** *and*

(ii) **The rotational period (t_r); divided by the sum of:**

(iii) **The rotational period (t_r);**

(iv) **The 'minimum seek time' (t_{smin});** *and*

(v) **The 'latency time' (t_l).**

Thus: $$R_{ts} = \frac{R_{tsmax} \times t_r}{t_r + t_{smin} + t_l}$$

'minimum seek time' (t_{smin})—

(1) **For fixed head devices, it is zero;** *or*

(2) **For moving head or moving media devices, the rated time to move from one track to an adjacent track.**

'latency time' (t_l)—

The rotational period divided by twice the number of independent read/write heads per track.

(b) Of the input/output control unit—magnetic tape drive combinations (R_{ttot}):

The sum of the individual 'transfer rates' of all input/output control unit—magnetic tape drive combinations (R_{tt}) provided with the system that can be sustained simultaneously assuming the configuration of equipment that would maximize this sum of rates.

Thus: $R_{ttot} = \text{Sum } R_{tt}$

'transfer rate'—

Of an input/output control unit—cartridge-type streamer or magnetic tape drive combination (R_{tt}):

The product of:

(1) **The number of independent read/write channels (C);** *and*

(2) **The greatest "maximum bit transfer rate" ($R_{ttmaxmax}$) of all tape drives.**

Thus: $R_{tt} = C \times R_{ttmaxmax}$

(c) Of the input/output or communication control unit—directly connected data channel combinations: The sum of the individual "transfer rates of all data channels" provided with the system that can be sustained simultaneously assuming the configuration of equipment that would maximize this sum of rates.

[Note 16:] (con.)

"TRANSFER RATE OF ANY DATA CHANNEL"—

The sum of the individual bit transfer rates of all the "other peripheral devices", excluding "terminal devices", that can be sustained simultaneously on the data channel.

"USER-ACCESSIBLE MICROPROGRAMMABILITY"—

The facility allowing a user to insert, modify or replace "microprograms".

"USER-ACCESSIBLE PROGRAMMABILITY"—

The facility allowing a user to insert, modify or replace "programs" by means other than:

(a) A physical change in wiring or interconnections; *or*

(b) The setting of function controls including entry of parameters.

"VIRTUAL STORAGE"—

The storage space that may be regarded as addressable "main storage" by the user of a computer system in which virtual addresses are mapped into real addresses.

> **[NOTE: The size of "virtual storage" is limited by the addressing scheme of the computer system and not by the actual number of "main storage" locations.]**

"WIDE AREA NETWORK"—

A data communication system that:

(a) Allows an arbitrary number of independent "data devices" to communicate with each other;

(b) May include "local area networks", *and*

(c) Is designed to interconnect geographically dispersed facilities.

ADVISORY NOTE 17 (FOR THE PEOPLE'S REPUBLIC OF CHINA)—Licenses are likely to be approved for export to satisfactory end-users in the People's Republic of China of "digital computers" or "related equipment" therefor controlled for export by sub-paragraph (h) of this ECCN 1565A, provided that:

(a) The "digital computers" or "related equipment" therefor:

(1) Will be operated by civil end-users for civil applications;

(2) Are exported as complete systems or enhancements to previously exported systems up to the limits of paragraph (b) of this Advisory Note;

(3) Have been primarily designed and used for non-strategic applications; *and*

(4) Do not fall within the scope of both paragraphs (h)(1)(ii)(A) and (B);

(b) The "digital computers" or "related equipment" therefor do not exceed *any* of the following limits:

(1) Central processing unit with a "total processing data rate" of 550 million bit/s;

(2) Array transform processors:

(i) "Equivalent multiply rate" - 800,000 operations per second;

(ii) Fast Fourier transform of 1,024 complex points - 40 ms;

(c) The "digital computers" or "related equipment" therefor do not have any of the following characteristics:

(1) Those identified in paragraphs (h)(1)(i)(d) to (H) or (M); *or*

(2) Those identified in paragraph (h)(1)(i)(b) having an "equivalent multiply rate" of more than 2 million operations per second.

◆ ◆ ◆ ◆ ◆ ◆ ◆

ADVISORY NOTE 18 (FOR THE PEOPLE'S REPUBLIC OF CHINA): *Licenses are likely to be approved for export to* satisfactory end-users in the People's Republic of China of "digital computers" or "related equipment" therefor in accordance with Advisory Note 5 above, on the understanding that:

(a) Paragraph (b)(1) of Advisory Note 5 does not apply;

(b) The "total Processing data rate" under paragraph (c) of Advisory Note 5 does not exceed 155 million bit/s.

ADVISORY NOTE 19 (FOR THE PEOPLE'S REPUBLIC OF CHINA): Licenses are likely to be approved for individual or bulk shipments to satisfactory end-users in the People's Republic of China of peripheral equipment and input/output interface or control units therefor as follows:

(a) Cathode ray tube graphic displays that do not exceed:

(1) 1,024 resolvable elements along one axis and 1,280 resolvable elements along the perpendicular axis; *or*

(2) 256 shades of gray or color (8 bit per pixel);

(b) Plotting equipment and digitizing equipment that has an accuracy of 0.002% or worse and an active area of 254 cm × 254 cm or smaller.

(c) Disk drives that do not exceed:

(1) "Maximum bit transfer rate" - 10.3 million bit/s; *or*

(2) "Net capacity" - 1,227 million bit;

(d) Non-impact type printers and laser printers having a resolution not exceeding 120 dots per cm (300 dots per inch);

(e) Optical character recognition (OCR) equipment;

(f) Light gun devices or other manual graphic input devices.

ADVISORY NOTE 20 (FOR THE PEOPLE'S REPUBLIC OF China): Licenses are likely to be approved for bulk shipments to satisfactory end-users in the People's Republic of China of personal computers and small business computer systems controlled by paragraph (h) that do not exceed any of the following parameters:

[NOTE: This does not apply to graphic Workstations exceeding the limits of paragraph (a)(7) of Advisory Note 9]

(a) "Total processing date rate" - 136 million bit/s;

(b) "Virtual storage" capability - 512 MByte

[NOTE: Supermini "digital computers" with a "virtual storage" capability exceeding the level in this paragraph (b) will not be eligible for consideration under this Note. It is recognized, however, that other "digital computers" (e.g., microcomputers and super microcomputers) may have a "virtual storage" capability exceeding this limit and in such cases they may be considered under this Note.]

(c) The other technical parameters of the system — the limits contained in paragraph (b) of Advisory Note 9 above without taking into account paragraph (b)(2)(v) of Advisory Note 9.

ADVISORY NOTE 21 (FOR THE PEOPLE'S REPUBLIC OF CHINA): Licenses are likely to be approved for export to satisfactory end-users in the People's Republic of China of spare parts in accordance with Advisory Note 7(a) and (b) to this ECCN 1565A.

◆ ◆ ◆ ◆ ◆ ◆ ◆

1. Which of the following ECCNs belong to the Commodity Group "General Industrial Equipment"? Write an X in the blank beside each ECCN that belongs.

_____ 1561A
_____ 1371A
_____ 1460A
_____ 4778B
_____ 6399G
_____ 5799C
_____ 1205A
_____ 2317A
_____ 1091A
_____ 5510C
_____ 6565G
_____ 3363A

2. If you decide that your product for export belongs to the Commodity Group "Transportation Equipment," then the ECCN for your product should have which number as the second digit?

____

3. What is the meaning of the code letter in a CCL entry?

____

____

4. Given the ECCN 1746A, for which Country Group(s) is a validated license required?

____

5. Given the ECCN 1080A, what supporting document must accompany your license application if the ultimate consignee is in Singapore?

____

6. Which two paragraphs following the ECCN can tell you whether a validated export license is required for the particular shipment?

____

7. Consider Example 1 (ECCN 1460A). If you plan to ship to a buyer in Brazil and the value of the shipment is $50,000.00, will you need a validated export license? Why or why not?

____

____

8. Consider Example 2 (ECCN 1565A). If you plan to ship to a buyer in Canada, will you need a validated export license?

____

9. If you wanted to review the General License provisions (in the Export Administration Regulations) to see whether your shipment requires a validated license or if it may be shipped under a general license, where in the Regulations would you look?

____

Name ______________________________ Score __________

OBJECTIVE 14 **Determine STELA entries for sample case numbers.**

DIRECTIONS

- For each case number given, write the correct STELA entry.
- For each STELA entry given, write the correct case number.

NOTE: The numbers used in this Assignment are examples only. Do not contact STELA regarding these numbers.

CASE NUMBERS	STELA ENTRIES
1. A221987	
2. B172835	
3. B600872	
4. A123456 Amendment 1	
5.	1547886*2#
6.	2339021#
7.	1451187*1#
8.	1672208#
9. B934223 Amendment 2	
10.	1668475#

ASSIGNMENT ANSWERS | U.S. EXPORT REGULATIONS AND LICENSING REQUIREMENTS | 17

ASSIGNMENT 1

1. ____ 1561A
   X 1371A
   ____ 1460A
   ____ 4778B
   X 6399G
   ____ 5799C
   ____ 1205A
   X 2317A
   ____ 1091A
   ____ 5510C
   ____ 6565G
   X 3363A

2. 4

3. The code letter identifies the Country Groups for which a validated license is required.

4. QSTVWYZ

5. International Import Certificate issued by the government of the country of destination.

6. "Validated License Required" and "GLV $ Value Limit"

7. Yes. Brazil is in Country Group T. Country Group T is identified in the paragraph "Validated License Required" and in the paragraph "GLV $ Value Limit" for a shipment valued at more than $2,000.00.

8. No.

9. Part 771

ASSIGNMENT 2

1. 1221987#
2. 2172835#
3. 2600872#
4. 1123456*1#
5. A547886 Amendment 2
6. B339021
7. A451187 Amendment 1
8. A672208
9. 2934223*2#
10. A668475

QUICK CHECK

U.S. EXPORT REGULATIONS AND LICENSING REQUIREMENTS

17

Name ______________________________ Score __________

OBJECTIVE 1

Match terms associated with export licensing with their correct definitions. Write the correct letter in each blank.

____ 1. Any article, material, or supply except technical data

____ 2. A license authorizing export

____ 3. A published authorization, described in Part 771 of the Export Administration Regulations, for the export of certain goods to certain destinations without requiring the exporter to submit an application prior to export (provided the transaction meets the criteria set forth in Part 771)

____ 4. A multilateral organization of member nations that cooperate in restricting strategic exports to controlled countries

____ 5. Seven groupings of countries for export control purposes, included in Supplement 1 to Part 770 of the Export Administration Regulations

____ 6. A statement required by the U.S. Government on the commercial invoice and bill of lading or air waybill for most commercial shipments leaving the U.S., notifying the carrier and all foreign parties, such as the intermediate and ultimate consignees and purchaser, that the goods have been licensed for export to certain destinations only and that diversion contrary to U.S. law is prohibited; sometimes called an "antidiversion clause"

____ 7. The department within the U.S. Department of Commerce that is responsible for administering export controls

a. Bureau of Export Administration (BXA)

b. Commodity

c. Commodity Control List (CCL)

d. Coordinating Committee on Multilateral Export Controls (COCOM)

e. Country Groups

f. Destination Control Statement

g. Export control commodity number (ECCN)

h. Export Administration Regulations

i. General license

j. License application

k. Office of Export Licensing (OEL)

l. STELA (System for Tracking Export License Applications)

m. Validated license

____8. An application for a validated export license

____9. A classification number used to identify commodities on the Commodity Control List

___10. U.S. export regulations issued by the Department of Commerce to implement the Export Administration Act of 1979 and detailed under Parts 768-799, inclusive, of Title 15 of the Code of Federal Regulations

___11. The list of commodities in the Export Administration Regulations that are under the export control jurisdiction of the Bureau of Export Administration

___12. The office within the U.S. Department of Commerce that processes applications for export licenses and is the final authority in determining export licensing requirements and granting or denying validated export licenses

___13. A U.S. Department of Commerce computer-generated voice unit, accessed through push-button telephones, that reports the up-to-the-minute status of license applications, amendments, or reexport requests

OBJECTIVE 2

Explain the purpose of the Export Administration Regulations. Include as many main points as possible.

____

____

____

____

____

OBJECTIVE 3

Name the general reasons for controlling U.S. exports. Give three (3) reasons. You do not have to explain each.

1. ____
2. ____
3. ____

OBJECTIVE 4

Describe the scope of the Export Administration Regulations. Write an "X" in the blank beside each item that applies to the regulations.

____ 1. Exports of commodities that are not based on restricted U.S. technology

____ 2. Exports of foreign products containing U.S.-origin parts and components from a foreign destination

____ 3. Exports of foreign products based on certain U.S.-origin technical data from a foreign destination

____ 4. Reexports of U.S.-origin commodities and technical data from one foreign destination to another

____ 5. Exports of commodities manufactured overseas

____ 6. Exports of commodities and technical data from the United States

____ 7. Exports of commodities containing no U.S. materials

OBJECTIVE 5

Identify the possible penalties for failing to comply with the Export Administration Act of 1979, as amended. Write an "X" in the blank beside each possible penalty.

____ 1. Whoever knowingly violates the Act, regulations, a license, or an outstanding order shall be fined not more than five times the value of the exports involved or $50,000, whichever is greater, or imprisoned not more than 5 years, or both.

____ 2. Whoever willfully exports anything contrary to the Act, regulations or any license or order, with knowledge that the exports will be used for the benefit of any country to which exports are restricted for national security or foreign policy purposes—(a) except in the case of an individual, shall be fined not more than five times the value of the exports involved or $1,000,000, whichever is greater; and (b) in the case of an individual, shall be fined not more than $250,000 or imprisoned not more than 10 years, or both.

____ 3. Businesses are subject to fines of up to $2,000,000.00 per violation.

____ 4. Anyone who is issued a validated license for export to a controlled country and who, with knowledge that the goods or technology are being used by that controlled country for military or intelligence gathering purposes contrary to the license conditions, willfully fails to report that use to the Secretary of Defense—(a) except in the case of an individual, shall be fined not more than five times the value of the exports involved or $1,000,000, whichever is greater; and (b) in the case of an individual, shall be fined not more than $250,000, or imprisoned not more than 5 years, or both.

OBJECTIVE 6

Explain the importance of export licensing. Include as many main points as possible.

____

____

____

____

____

____

OBJECTIVE 7

Distinguish between a general export license and a validated export license. Write a "G" or a "V" in each blank.

____ 1. Requires approval for exporting specific commodities

____ 2. Requires no application or written pre-authorization before shipping

____ 3. Can be used by any person, provided the transaction meets the criteria set forth in the Export Administration Regulations

____ 4. Covers a specific export transaction and time period

____ 5. Is not limited to a single export transaction or time period

____ 6. Issued by or under the authority of Export Administration, authorizing export

OBJECTIVE 8

Match common general export licenses with their uses. Write the correct letter in each blank.

____ 1. To export eligible commodities to COCOM participating countries and other eligible countries, for consumption within an eligible country or for reexport among these countries.

____ 2. To export goods intended for temporary use overseas and return to the U.S. no later than one year after the date of export.

____ 3. To export in a single shipment of limited value items.

____ 4. To export most unpublished data to Free World destinations.

____ 5. To export any commodity in the Commodity Control List to any destination not requiring a validated license.

____ 6. To take overseas as personal baggage personal effects, household effects, vehicles, and tools of trade.

____ 7. To return certain commodities normally requiring a validated license to the country to which those goods were originally exported, when those goods need to be repaired or have defective parts replaced.

____ 8. To export technical data that is generally available to the public, and scientific or educational data that is not directly related to industrial processes.

____ 9. To export eligible commodities for use within eligible countries, or for reexport among eligible countries for use within those countries. Described in Advisory Notes in certain CCL entries.

a. G-DEST
b. GFW
c. GLV
d. GLR
e. GTDA
f. GTDR
g. G-COM
h. BAGGAGE
i. GTE

OBJECTIVE 9

Name the types of validated export licenses. Write the name of each license described.

1. Any validated license, other than a special license, that authorizes the export of specific technical data or a specified quantity of commodities during a specified period to a designated consignee

   ____

2. A special license that authorizes the export of commodities (and technical data where specifically authorized) required for a specified activity during a period of approximately one year from the issuance of the license

   ____

3. A special license that authorizes the export of eligible commodities to approved consignees in specified countries, without dollar value or quantity limits; consignees must be foreign distributors or users of the licensed commodity

   ____

4. A special license that allows persons or firms in the United States and in foreign countries to provide prompt service for equipment exported from the United States; produced overseas by a subsidiary, affiliate, or branch of a U.S. firm; or produced overseas by a manufacturer who uses parts imported from the United States in the manufactured product

   ____

OBJECTIVE 10

State criteria used in evaluating applications for validated export licenses. State three (3) of the criteria.

1. ______________________________
2. ______________________________
3. ______________________________

OBJECTIVE 11

List in order the steps for tracking a validated export license application using STELA. List the three (3) steps in order.

1. ______________________________
2. ______________________________
3. ______________________________

OBJECTIVE 12

State guidelines for complying with export regulations and licensing requirements. State four (4) guidelines.

1. ____________________

____

2. ____________________

____

3. ____________________

____

4. ____________________

____

NOTICE

The objectives listed below are not part of the Quick Check.

OBJECTIVE 13

Interpret a CCL entry. SCORE ________

OBJECTIVE 14

Determine STELA entries for sample case numbers. SCORE ________

QUICK CHECK ANSWERS

U.S. EXPORT REGULATIONS AND LICENSING REQUIREMENTS

17

OBJECTIVE 1

1. b
2. m
3. i
4. d
5. e
6. f
7. a
8. j
9. g
10. h
11. c
12. k
13. l

OBJECTIVE 2

The Export Administration Act of 1979, as amended ("the Act"), authorizes the President to control exports of U.S. commodities and technical data to all foreign destinations, as necessary, for three general reasons: foreign policy, national security, and domestic short supply.

The Department of Commerce issued the Export Administration Regulations in order to implement and enforce the Act.

OBJECTIVE 3

In any order:

1. U.S. foreign policy
2. U.S. national security
3. Domestic short supply

OBJECTIVE 4

2, 3, 4, 6.

OBJECTIVE 5

1, 2, 4.

OBJECTIVE 6

Most commodities are "pre-approved" for export and require no application for an export license. However, some commodities are controlled and cannot be exported unless the exporter has submitted an application for a specific license and has been granted the license.

U.S. exporters are responsible for complying with licensing regulations and are subject to civil and criminal penalties for exporting in violation of licensing regulations. Freight forwarders have only limited liability.

OBJECTIVE 7

1. V
2. G
3. G
4. V
5. G
6. V

OBJECTIVE 8

1. g
2. i
3. c
4. f
5. a
6. h
7. d
8. e
9. b

OBJECTIVE 9

1. Individual license
2. Project license
3. Distribution license
4. Service-supply license

OBJECTIVE 10

Any three of the following:

- Type of commodity
- End-use and/or end-user(s)
- Value of the product
- Country of destination

OBJECTIVE 11

1. Call the telephone number for STELA.
2. Type in your case number (when prompted).
3. Type the # sign to end your entry.

OBJECTIVE 12

Any four of the following:

- Contact your nearest DOC district office for assistance in determining your specific licensing requirements.
- Use general licenses and multiple-transaction validated licenses whenever possible.
- Determine the export license requirements for the export goods *early*.
- Avoid overshipping by accounting for the quantity and value of goods shipped against a validated license.
- Keep track of the license expiration date to avoid shipments after the license has expired.
- Stay up-to-date with export control requirements in the Export Administration Regulations.
- Get qualified advice about U.S. export regulations and licensing requirements.

ANTIBOYCOTT COMPLIANCE

18

INTRODUCTION

The United States has an established policy of opposing restrictive trade practices or boycotts that are fostered or imposed by foreign countries against other countries that are friendly to the United States, and encouraging domestic concerns to refuse to take any action that can have the effect of furthering or supporting such practices. The United States does approve of and support some boycotts, and implements specific licensing requirements and COCOM and other export controls through the Export Administration Regulations. The purpose of U.S. antiboycott legislation is to prevent U.S. entities from being used as tools of another nation's foreign policy and to contain the effect on the U.S. economy of the international boycotts that the United States does not approve of or support.

UNIT OBJECTIVE

After completing this unit, you should be familiar with the scope of U.S. antiboycott legislation. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you should be able to

1. Match terms associated with antiboycott legislation with their correct definitions.
2. Explain the purpose of antiboycott legislation.
3. Identify the two bodies of law and regulations restricting involvement in international boycotts.
4. Compare the scope of boycott activities under the Export Administration Act and the Internal Revenue Code.

SUGGESTED ACTIVITIES

ANTIBOYCOTT COMPLIANCE

18

PREPARATION

- Order additional materials to supplement this unit.

  Publications

  - *A Basic Guide to Exporting* (Current edition). Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; or contact Department of Commerce district offices.
  - *A Summary of U.S. Export Administration Regulations*
  - *Forms Supplement* (Reprint from Export Administration Regulations)
  - Country Groups World Map (Color-coded)

  Available from the Exporter Assistance Division, Publications and Regulations Branch, Room 1622, U.S. Department of Commerce, Washington, D.C. 20230 (202/377-2574).

  - IRS Form 5713 (International Boycott Report). Available by calling 1-800-424-3676.

  NOTE: Also see the Unit References.

- Review the unit and plan your presentation:
  - Estimate the amount of material that can be covered in each class session.
  - Plan for appropriate Assignments.
  - Identify objectives that you can supplement with other resources.
  - Invite guest speakers in advance.

    EXAMPLE: International legal counsel

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities.

DELIVERY

Objectives 1-2

- Compare the terms "whitelist" and "blacklist."
- Give examples of ongoing international boycotts (such as the Arab League boycott of Israel).

Objectives 3-4

- Invite qualified legal counsel to discuss antiboycott legislation and what it means for companies involved in exporting.
- Describe possible situations where boycott-related activities could appear. Emphasize the need to be alert for boycott-related activities in export transactions, including situations that might seem harmless. Emphasize the need to prevent intentional or accidental violations of antiboycott regulations.
- Refer to Supplements 1-4.
- Give examples of "red flag" language.

EVALUATION

- Give the Quick Check soon after presenting the unit.
- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- *A Basic Guide to Exporting*, U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service. September 1986.
- *A Summary of U.S. Export Administration Regulations*, International Trade Administration, Office of Export Administration. January 1985.
- *Executive Guide to the Antiboycott Laws*, by Michael G. Deal. Copyright: Hall, Estill, Hardwick, Gable, Golden & Nelson, 1984, 1988.

OBJECTIVE 1

Match terms associated with antiboycott legislation with their correct definitions.

Blacklist—A boycott-based list of persons or firms with which business dealings are not allowed

Boycott—To refuse to do business with a specific person, company, or country for various reasons

EXAMPLE: International boycotts which the United States does not condone or support include the Arab League boycott of Israel; boycotts of Taiwan by several of the "Non-Aligned Nations"; and others. International boycotts condoned and supported by the United States include U.S. export controls prohibiting the unlicensed exportation of selected commodities and technical data to the Communist "bloc" nations; regulations by the U.S. Treasury Department forbidding any unlicensed transaction **whatsoever** between a United States person (including a foreign subsidiary of a United States concern) and Vietnam, Cambodia, Cuba, and North Korea; and others.

Office of Antiboycott Compliance (OAC)—The office within the Department of Commerce responsible for administering antiboycott laws by conducting investigations, educating the public, operating a telephone advisory service, and developing a yearly report to Congress

Whitelist—A boycott-based list of persons or firms with which business dealings are allowed

OBJECTIVE 2

Explain the purpose of antiboycott legislation.

The United States has an established policy of opposing restrictive trade practices or boycotts that are fostered or imposed by foreign countries against other countries that are friendly to the United States, and encouraging domestic concerns to refuse to take any action that can have the effect of furthering or supporting such practices.

In 1965, Congress amended the Export Control Act of 1949. In 1977, the **Export Administration Act of 1969 was amended in response to the increasing number and scope of foreign boycott practices going beyond accepted commercial dealings**. The antiboycott provisions were reenacted without change in the Export Administration Act of 1979.

The legislation does not challenge the right of any nation to implement a boycott against another nation, and is not intended to disrupt trade between the United States and any boycotting countries. The United States does approve of and support some boycotts, and implements specific licensing requirements and COCOM and other export controls through the Export Administration Regulations. The purpose of U.S. antiboycott legislation is **to prevent U.S. entities from being used as tools of another nation's foreign policy and to contain the effect on the U.S. economy of the international boycotts that the United States does not approve of or support**.

OBJECTIVE 3

Identify the two bodies of law and regulations restricting involvement in international boycotts.

1. The Export Administration Act of 1979

   NOTE: As implemented by Part 769 of the Export Administration Regulations issued by the Office of Antiboycott Compliance of the Bureau of Export Administration within the U.S. Department of Commerce.

2. Section 999 (and related sections) of the Internal Revenue Code

   NOTE: As implemented by Internal Revenue Service regulations and interpreted in the revised Antiboycott Guidelines of the U.S. Department of the Treasury.

OBJECTIVE 4

Compare the scope of boycott activities under the Export Administration Act and the Internal Revenue Code.

Export Administration Act—Prohibits United States persons from doing the following, including knowingly agreeing to do the following:

- refusing to do business or requiring any other person to refuse to do business with a boycotted company or in a boycotted country;

  NOTE: A United States person's use of either a blacklist or whitelist constitutes a refusal to do business.

- refusing to employ or otherwise discriminate or requiring any other person to refuse to employ or otherwise discriminate against a United States person on account of the race, religion, sex, or national origin of that person or its owners, officers, directors, or employees;

- furnishing information about the race, religion, sex or national origin of a United States person or its owners, officers, directors, or employees;

  IMPORTANT: This prohibition applies whether the information is specifically requested or offered voluntarily, and whether the information requested or volunteered is stated in the affirmative or the negative. However, an individual may comply with the passport, visa, immigration and naturalization requirements of any country.

- furnishing information concerning any other person's past, present or proposed business relationships with or in a boycotted country; with any business concern organized under the laws of a boycotted country; with any national or resident of a boycotted country; or with any other person who is known or believed to be restricted from having any business relationship with or in a boycotting country;

- furnishing information concerning associations with or contributions to charitable or fraternal organizations which support a boycotted country; and

- paying, honoring, confirming or otherwise implementing a letter of credit that contains as a condition or requirement of payment any of the above.

FOR YOUR INFORMATION
Exceptions to antiboycott prohibitions

IMPORTANT: The following exceptions are stated in general terms. Do not rely upon these exceptions by themselves.

1 A United States person, in supplying goods or services directly to a boycotting country, may comply with the boycotting country's law prohibiting imports of goods or services from the boycotted country;

2 a United States person, in shipping goods to a boycotting country, may comply with the boycotting country's laws which prohibit the shipment of goods on a carrier of the boycotted country or by a route other than that prescribed by the boycotting country;

3 a United States person, in shipping goods to a boycotting country, may comply with the boycotting country's importing and shipping document requirements with respect to the (a) country of origin, (b) name of the carrier, (c) route of shipment, (d) name of the supplies, and (e) name of the provider of services, provided that, except for the names of carriers or routes of shipments, all such information must be stated in "positive, non-blacklisting, non-exclusionary terms";

4 a United States person may comply with a unilateral and specific selection by a boycotting country or a national or resident thereof with respect to carriers, insurers, supplier of services to be performed in the country, or specific goods. The selection must be completely unilateral and name-specific; no discretion can be left to the supplier;

EXAMPLE: It is permissible to fulfill a request by an Arab country that requires the use of ACME widgets, but it is **impermissible** for the United States person to choose from a "whitelist" of firms that are known not to have any dealings with Israel.

5 a United States person, in shipping goods from a boycotting country, may comply with that country's laws forbidding shipment or transhipment of such exports to or through a boycotted country;

6 an individual may comply with the passport, visa, immigration and naturalization requirements of any country; and

7 a United States person residing in a boycotting country may comply with the local laws of that country, to the extent those laws affect his, her or its activities within the country.

SOURCE: *Executive Guide to the Antiboycott Laws*, by Michael G. Deal. Copyright: Hall, Estill, Hardwick, Gable, Golden & Nelson, 1984, 1988. Used with permission.

Internal Revenue Code—Considers a person or entity to have participated in or cooperated with an international boycott if the person or entity, as a condition of doing business or of a particular sale, agrees to:

- refrain from doing business with the government, companies, or nationals of a boycotted country;
- refrain from doing business with any United States person engaged in trade with a boycotted country (i.e., refusing to do business with blacklisted companies);
- refrain from doing business with a company whose ownership or management includes individuals of a particular nationality, race, or religion;
- remove or refrain from selecting as its corporate directors, individuals of a particular nationality, race, or religion;
- refrain from employing individuals of a particular nationality, race, or religion; or
- refrain from shipping or insuring any product sold pursuant to a particular sale on a carrier owned, leased, or operated by a person who does not participate in or cooperate with the boycott.

SOURCE: The information in Objective 4 is adapted with permission from *Executive Guide to the Antiboycott Laws*, by Michael G. Deal. Copyright: Hall, Estill, Hardwick, Gable, Golden & Nelson, 1984, 1988.

FOR YOUR INFORMATION

"Red flag" language alerting exporters to antiboycott compliance activities

- Are you asked to complete and return a questionnaire regarding relations with the boycotted country?
- Are you asked to provide different kinds of certificates representing that your company or other companies that you deal with are not blacklisted or that goods to be supplied do not originate in the boycotted country?
- Do boycott clauses appear in letters of credit, shipping documents, or other contractual documents that require a company to make similar representations?

  NOTE: Often, standard terms and conditions in requests for bids, tenders and purchase orders contain "boilerplate" clauses requiring adherence to the foreign country's boycott laws.

* This list may not be complete. For more information, contact the Office of Antiboycott Compliance of the Bureau of Export Administration.

END-USER SUPPLEMENT (FORM BXA-622P-B)

SUPPLEMENTAL FORM BXA-622P-B
[illegible]
FORM APPROVED: OMB NO. [illegible]

1. APPLICATION CONTROL NUMBER
(Number from original BXA-622P or BXA-699P)

U.S. DEPARTMENT OF COMMERCE
Bureau of Export Administration

END-USER SUPPLEMENT

If End-User(s) are different from Items #6 on form BXA-622P and/or BXA-699P

DATE RECEIVED
(Leave blank)

3. CONTACT PERSON

Name Telephone No.

Information furnished herewith is subject to the provisions of Section 12(c) of the Export Administration Act of 1979 (50 U.S.C. app. 2411(c)), and its unauthorized disclosure is prohibited by law.

13. END-USER		13. END-USER	
ADDRESS		ADDRESS	
CITY	POSTAL CODE	CITY	POSTAL CODE
COUNTRY	TELEPHONE NO.	COUNTRY	TELEPHONE NO.
13. END-USER		13. END-USER	
ADDRESS		ADDRESS	
CITY	POSTAL CODE	CITY	POSTAL CODE
COUNTRY	TELEPHONE NO.	COUNTRY	TELEPHONE NO.
13. END-USER		13. END-USER	
ADDRESS		ADDRESS	
CITY	POSTAL CODE	CITY	POSTAL CODE
COUNTRY	TELEPHONE NO.	COUNTRY	TELEPHONE NO.
13. END-USER		13. END-USER	
ADDRESS		ADDRESS	
CITY	POSTAL CODE	CITY	POSTAL CODE
COUNTRY	TELEPHONE NO.	COUNTRY	TELEPHONE NO.
13. END-USER		13. END-USER	
ADDRESS		ADDRESS	
CITY	POSTAL CODE	CITY	POSTAL CODE
COUNTRY	TELEPHONE NO.	COUNTRY	TELEPHONE NO.
13. END-USER		13. END-USER	
ADDRESS		ADDRESS	
CITY	POSTAL CODE	CITY	POSTAL CODE
COUNTRY	TELEPHONE NO.	COUNTRY	TELEPHONE NO.

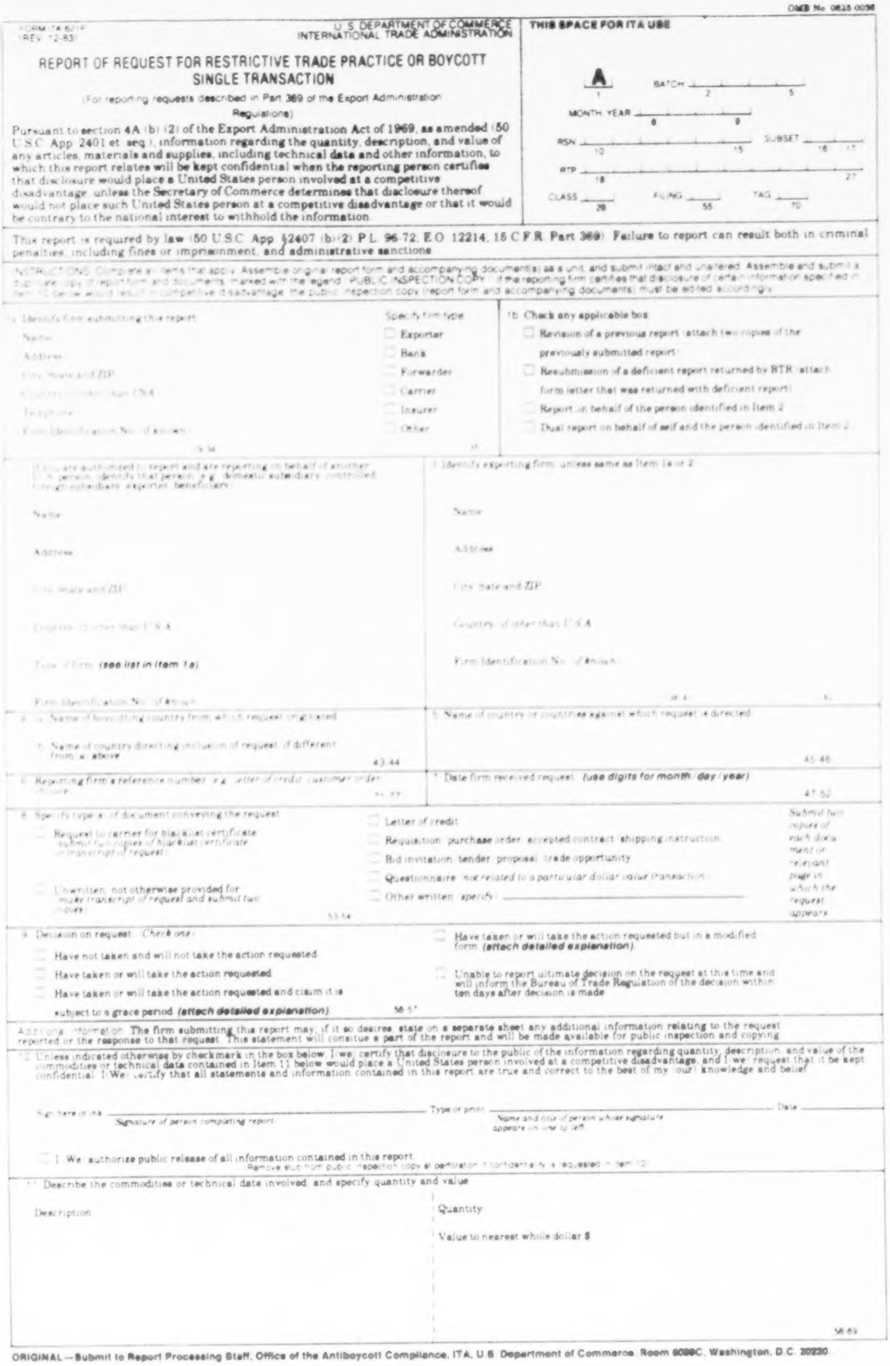
12. CONTINUATION OF INFORMATION REGARDING SPECIFIC END USE OF COMMODITIES OR TECHNICAL DATA BY CONSIGNEE

ORIGINAL

USCOMM-DC 88-[illegible]

REPORT OF REQUEST
FOR RESTRICTIVE TRADE PRACTICE
OR BOYCOTT SINGLE TRANSACTION (FORM ITA-621P)

FORM ITA-621P, REPORT OF REQUEST FOR RESTRICTIVE TRADE PRACTICE OR BOYCOTT—SINGLE TRANSACTION



OMB No. 0625-0030

FORM ITA-621P
(REV. 12-83)

U.S. DEPARTMENT OF COMMERCE
INTERNATIONAL TRADE ADMINISTRATION

REPORT OF REQUEST FOR RESTRICTIVE TRADE PRACTICE OR BOYCOTT
SINGLE TRANSACTION

(For reporting requests described in Part 369 of the Export Administration Regulations)

Pursuant to section 4A (b) (2) of the Export Administration Act of 1969, as amended (50 U.S.C. App. 2401 et. seq.), information regarding the quantity, description, and value of any articles, materials and supplies, including technical data and other information, to which this report relates will be kept confidential when the reporting person certifies that disclosure would place a United States person involved at a competitive disadvantage, unless the Secretary of Commerce determines that disclosure thereof would not place such United States person at a competitive disadvantage or that it would be contrary to the national interest to withhold the information.

THIS SPACE FOR ITA USE

A 1 — BATCH 2 — 5

MONTH YEAR 6 — 9

RSN 10 — 15 SUBSET 16 — 17

RTP 18 — 27

CLASS 28 FILING 55 TAG 70

This report is required by law (50 U.S.C. App. §2407 (b)(2) P.L. 96-72, E.O. 12214, 15 C.F.R. Part 369). Failure to report can result both in criminal penalties, including fines or imprisonment, and administrative sanctions.

INSTRUCTIONS: Complete all items that apply. Assemble original report form and accompanying document(s) as a unit, and submit intact and unaltered. Assemble and submit a duplicate copy of report form and documents, marked with the legend "PUBLIC INSPECTION COPY." If the reporting firm certifies that disclosure of certain information specified in Item 12 below would result in competitive disadvantage, the public inspection copy (report form and accompanying documents) must be edited accordingly.

1a. Identify firm submitting this report

Name

Address

City, state and ZIP

Country (if other than USA)

Telephone

Firm Identification No. (if known)

Specify firm type

☐ Exporter
☐ Bank
☐ Forwarder
☐ Carrier
☐ Insurer
☐ Other

1b. Check any applicable box

☐ Revision of a previous report (attach two copies of the previously submitted report)
☐ Resubmission of a deficient report returned by BTR (attach form letter that was returned with deficient report)
☐ Report on behalf of the person identified in Item 2
☐ Dual report on behalf of self and the person identified in Item 2

2. If you are authorized to report and are reporting on behalf of another U.S. person, identify that person (e.g., domestic subsidiary, controlled foreign subsidiary, exporter, beneficiary)

Name

Address

City, state and ZIP

Country (if other than U.S.A.)

Type of firm (see list in item 1a)

Firm Identification No. (if known)

3. Identify exporting firm (unless same as Item 1a or 2)

Name

Address

City, state and ZIP

Country (if other than U.S.A.)

Firm Identification No. (if known)

4. (a) Name of boycotting country from which request originated

(b) Name of country directing inclusion of request (if different from (a) above) 43-44

5. Name of country or countries against which request is directed 45-46

6. Reporting firm's reference number (e.g., letter of credit, customer order, invoice)

7. Date firm received request (use digits for month/day/year) 47-52

8. Specify type(s) of document conveying the request

☐ Request to carrier for blacklist certificate (submit two copies of blacklist certificate or transcript of request)

☐ Unwritten, not otherwise provided for (make transcript of request and submit two copies) 53-54

☐ Letter of credit
☐ Requisition, purchase order, accepted contract, shipping instruction
☐ Bid invitation, tender, proposal, trade opportunity
☐ Questionnaire (not related to a particular dollar value transaction)
☐ Other written (specify) ______

Submit two copies of each document or relevant page in which the request appears

9. Decision on request (Check one)

☐ Have not taken and will not take the action requested
☐ Have taken or will take the action requested
☐ Have taken or will take the action requested and claim it is subject to a grace period (attach detailed explanation) 56-57
☐ Have taken or will take the action requested but in a modified form (attach detailed explanation)
☐ Unable to report ultimate decision on the request at this time and will inform the Bureau of Trade Regulation of the decision within ten days after decision is made

10. Additional information. The firm submitting this report may, if it so desires, state on a separate sheet any additional information relating to the request reported or the response to that request. This statement will consitue a part of the report and will be made available for public inspection and copying.

12. Unless indicated otherwise by checkmark in the box below, I (we) certify that disclosure to the public of the information regarding quantity, description, and value of the commodities or technical data contained in Item 11 below would place a United States person involved at a competitive disadvantage, and I (we) request that it be kept confidential. I (We) certify that all statements and information contained in this report are true and correct to the best of my (our) knowledge and belief.

Sign here in ink ______ Type or print ______ Date ______
Signature of person completing report — Name and title of person whose signature appears on line to left

☐ I (We) authorize public release of all information contained in this report.
(Remove stub from public inspection copy at perforation if confidentiality is requested in Item 12)

11. Describe the commodities or technical data involved, and specify quantity and value

Description

Quantity

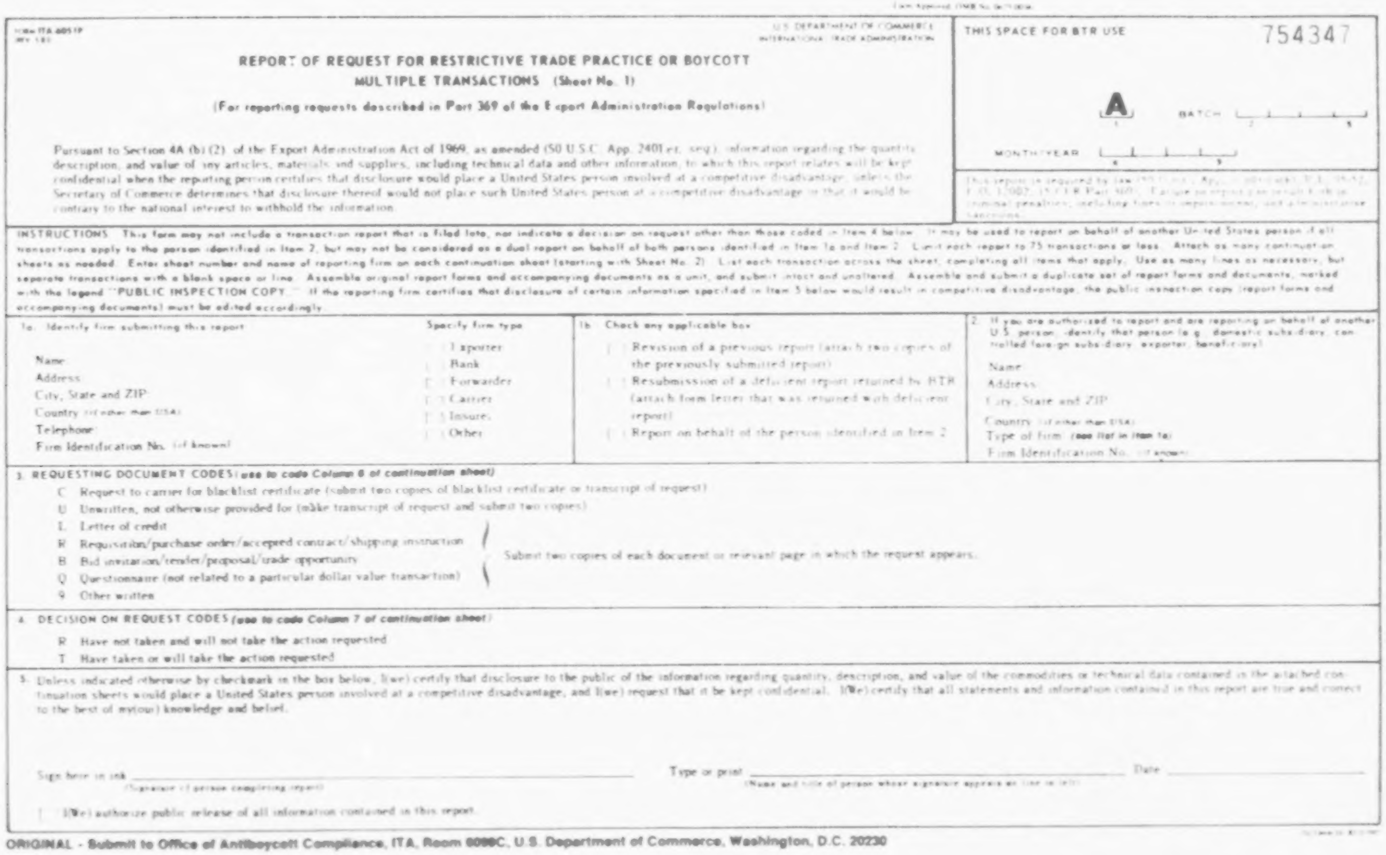
Value to nearest whole dollar $

58-69

ORIGINAL—Submit to Report Processing Staff, Office of the Antiboycott Compliance, ITA, U.S. Department of Commerce, Room 6099C, Washington, D.C. 20230

REPORT OF REQUEST FOR RESTRICTIVE TRADE PRACTICE OR BOYCOTT MULTIPLE TRANSACTIONS (FORM ITA-6051P)

FORM ITA-6051P, REPORT OF REQUEST FOR RESTRICTIVE TRADE PRACTICE OR BOYCOTT MULTIPLE TRANSACTIONS



Form Approved: OMB No. 0625-0004

FORM ITA-6051P
REV. 1-83

U.S. DEPARTMENT OF COMMERCE
INTERNATIONAL TRADE ADMINISTRATION

THIS SPACE FOR BTR USE 754347

A

BATCH

MONTH/YEAR

REPORT OF REQUEST FOR RESTRICTIVE TRADE PRACTICE OR BOYCOTT MULTIPLE TRANSACTIONS (Sheet No. 1)

(For reporting requests described in Part 369 of the Export Administration Regulations)

Pursuant to Section 4A (b) (2) of the Export Administration Act of 1969, as amended (50 U.S.C. App. 2401 et. seq.), information regarding the quantity, description, and value of any articles, materials and supplies, including technical data and other information, to which this report relates will be kept confidential when the reporting person certifies that disclosure would place a United States person involved at a competitive disadvantage, unless the Secretary of Commerce determines that disclosure thereof would not place such United States person at a competitive disadvantage or that it would be contrary to the national interest to withhold the information.

This report is required by law (50 U.S.C. App. [illegible]; E.O. 12002; 15 CFR Part 369). Failure to report can result in both criminal penalties, including fines or imprisonment, and administrative sanctions.

INSTRUCTIONS. This form may not include a transaction report that is filed late, nor indicate a decision on request other than those coded in Item 4 below. It may be used to report on behalf of another United States person if all transactions apply to the person identified in Item 2, but may not be considered as a dual report on behalf of both persons identified in Item 1a and Item 2. Limit each report to 75 transactions or less. Attach as many continuation sheets as needed. Enter sheet number and name of reporting firm on each continuation sheet (starting with Sheet No. 2). List each transaction across the sheet, completing all items that apply. Use as many lines as necessary, but separate transactions with a blank space or line. Assemble original report forms and accompanying documents as a unit, and submit intact and unaltered. Assemble and submit a duplicate set of report forms and documents, marked with the legend "PUBLIC INSPECTION COPY." If the reporting firm certifies that disclosure of certain information specified in Item 5 below would result in competitive disadvantage, the public inspection copy (report forms and accompanying documents) must be edited accordingly.

1a. Identify firm submitting this report:

Name:
Address:
City, State and ZIP:
Country (if other than USA):
Telephone:
Firm Identification No. (if known)

Specify firm type

☐ Exporter
☐ Bank
☐ Forwarder
☐ Carrier
☐ Insurer
☐ Other

1b. Check any applicable box

☐ Revision of a previous report (attach two copies of the previously submitted report)
☐ Resubmission of a deficient report returned by BTR (attach form letter that was returned with deficient report)
☐ Report on behalf of the person identified in Item 2

2. If you are authorized to report and are reporting on behalf of another U.S. person, identify that person (e.g., domestic subsidiary, controlled foreign subsidiary, exporter, beneficiary)

Name:
Address:
City, State and ZIP:
Country (if other than USA):
Type of firm: (see list in Item 1a)
Firm Identification No. (if known)

3. REQUESTING DOCUMENT CODES (use to code Column 6 of continuation sheet)

C Request to carrier for blacklist certificate (submit two copies of blacklist certificate or transcript of request)
U Unwritten, not otherwise provided for (make transcript of request and submit two copies)
L Letter of credit
R Requisition/purchase order/accepted contract/shipping instruction
B Bid invitation/tender/proposal/trade opportunity
Q Questionnaire (not related to a particular dollar value transaction)
9 Other written

Submit two copies of each document or relevant page in which the request appears.

4. DECISION ON REQUEST CODES (use to code Column 7 of continuation sheet)

R Have not taken and will not take the action requested
T Have taken or will take the action requested

5. Unless indicated otherwise by checkmark in the box below, I(we) certify that disclosure to the public of the information regarding quantity, description, and value of the commodities or technical data contained in the attached continuation sheets would place a United States person involved at a competitive disadvantage, and I(we) request that it be kept confidential. I(We) certify that all statements and information contained in this report are true and correct to the best of my(our) knowledge and belief.

Sign here in ink ______________________
(Signature of person completing report)

Type or print ______________________
(Name and title of person whose signature appears on line at left)

Date ______________________

☐ I(We) authorize public release of all information contained in this report.

ORIGINAL - Submit to Office of Antiboycott Compliance, ITA, Room 6098C, U.S. Department of Commerce, Washington, D.C. 20230

BEST COPY AVAILABLE

FORM ITA-6051P, REPORT OF REQUEST FOR RESTRICTIVE TRADE PRACTICE OR BOYCOTT MULTIPLE TRANSACTIONS (Continuation Sheet)

Column (2) Also enter firm identification number assigned to exporting firm, if known. (6) Use codes found on Sheet No. 1 to specify type(s) of document conveying the request. (7) Use codes found on Sheet No. 1 to indicate whether action taken or not taken. (8) Enter reporting firm's reference number (e.g., letter of credit, customer order, invoice). This number must appear on corresponding copy of document or relevant page. Attach copies in same order as listed on continuation sheet(s).	SHEET NO. REPORTING FIRM (Name)	FORM ITA-6051P-a U.S. DEPARTMENT OF COMMERCE INTERNATIONAL TRADE ADMINISTRATION REPORT OF REQUEST FOR RESTRICTIVE TRADE PRACTICE OR BOYCOTT MULTIPLE TRANSACTIONS (Continuation Sheet)

RSN SUBSET RTP/CLASS OTHER PARTY FIN (1)	NAME AND ADDRESS OF EXPORTING FIRM INVOLVED (unless same as Item 1a or Item 2 on Sheet No. 1) (2)	BOYCOTTING COUNTRY (3)	BOYCOTTED COUNTRY OR COUNTRIES (4)	DATE REQUEST RECEIVED BY FIRM (month/day/year) (5)	REQUESTING DOCUMENT CODE (6)	DECISION ON REQUEST CODE (7)	YOUR REFERENCE NUMBER (8)	COMMODITIES OR TECHNICAL DATA (description, quantity, and value to the nearest whole dollar) (9)
THIS SPACE FOR BTR USE							(Remove stub from public inspection copy [illegible] if confidentiality is requested in Sheet No. 1)	

ORIGINAL - Attach to and submit with the original of Sheet No. 1 (ITA-6051P)

IRS INTERNATIONAL BOYCOTT REPORT
(IRS FORM 5713)

The "IRS International Boycott Report (IRS Form 5713)" is an annual report that must be filed by or on behalf of every company and by or on behalf of **all** of its foreign and domestic subsidiaries and affiliates, including all subsidiaries and affiliates in which the parent company owns or controls an interest equal to ten percent (10%) or more of the equity.

The Internal Revenue Code requires that all taxpayers make an annual report of boycott-related activity. **The scope of the activity which must be reported goes well beyond the activities which will result in loss of tax benefits**. Among other things, the IRS Form 5713 requires disclosure of (1) all operations in or related to countries on the Secretary's list of boycotting countries and (2) all operations in or related to countries which the person filing the report knows or has reason to know participate in an international boycott. The phrase "operations in or related to" is given the broadest possible interpretation. Reportable activities include, but are not limited to, the following: supply of goods and services to and from a boycotting country; contracts with a boycotting country or its nationals; investments in a boycotting country; solicitation of business in a boycotting country; and all business communication with a boycotting country and companies and nationals thereof (including minor activities such as sending an annual report to a person in a boycotting country). **All such operations must be reported whether or not a request to participate in a boycott is received and whether or not the person receiving any such request participates in or cooperates with the boycott. All requests to participate in a boycott must be reported, regardless of whether the request is answered. All agreements to participate or cooperate with an international boycott must also be reported**.

Failure to file a report is punishable by a fine of $25,000.00, one year in prison, or both.

SOURCE: This introduction is adapted with permission from *Executive Guide to the Antiboycott Laws*, by Michael G. Deal. Copyright: Hall, Estill, Hardwick, Gable, Golden & Nelson, 1984, 1988.

Form **5713**
(Rev. June 1988)
Department of the Treasury
Internal Revenue Service

International Boycott Report

For tax year beginning ...., 19 ......
and ending ...., 19 ......
▶ Controlled groups, see specific instructions.

OMB No. 1545-0216
Expires 06-30-91

To be Filed in Duplicate
(See Instruction B)

Name
Taxpayer identifying number

Number and street

City or town, state and ZIP code

Address of Service Center where your tax return is filed

Type of filer (check one)
☐ Individual ☐ Partnership ☐ Corporation ☐ Trust ☐ Estate ☐ Other

1 Individuals.—Enter adjusted gross income from your tax return (see instructions)

2 Partnerships and corporations.

a Partnerships.—Enter each partner's name and taxpayer identifying number.

b Corporations.—Enter the name and employer identification number of each member of the controlled group (as defined in section 993(a)(3)). Do not list members included in the consolidated return; instead, attach a copy of Form 851. List all other members of the controlled group not included in the consolidated return.

If you list any corporations below or if you attach Form 851, you must designate a "common taxable year." Enter the name and employer identification number in line 4b of the corporation whose taxable year is designated.

Name	Taxpayer identifying number

If necessary, attach more sheets and check this box ▶ ☐

	Code	Description
c Enter principal business activity code and description (see instructions)		
d IC-DISCs.—Enter principal product or service code and description (see instructions)		

3 Partnerships.—Each partnership filing Form 5713 must give the following information.

a Partnership's total assets (Form 1065, Schedule L, line 13, column (d))

b Partnership's ordinary income (Form 1065, page 1)

4 Corporations.—Each corporation filing Form 5713 must give the following information.

a Type of form filed (Form 1120, 1120-IC-DISC, 1120F, 1120-FSC, 1120L, 1120–PC, etc.)

b Common taxable year election (see instructions)—

(1) Name of corporation ▶ ....

(2) Employer identification number

(3) Common taxable year beginning ...., 19 ..... and ending ...., 19 .....

c Corporations filing this form enter—

(1) Total assets (see instructions)

(2) Taxable income before net operating loss and special deductions (see instructions)

5 Estates or trusts.—Enter total income (Form 1041, page 1)

6 Enter the total amount (before reduction for boycott participation or cooperation) of the following tax benefits (see instructions)

a Foreign tax credit

b Deferral of earnings of controlled foreign corporations

c Deferral of IC-DISC income

d Exempt FSC Income

Under penalties of perjury, I declare that I have examined this report, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Signature ▶ .... **Date ▶** ....

Title ▶

For Paperwork Reduction Act Notice, see page 1 of the instructions.

Form **5713** (Rev. 6-88)

		Yes	No
7	The following information must be submitted by every person filing Form 5713 (see specific instructions).		
a	Are you a United States shareholder (as defined in section 951(b)) of any foreign corporation (including a FSC that does not use the administrative pricing rules) that had operations reportable under section 999(a)?		
b	If so, is any foreign corporation a controlled foreign corporation (as defined in section 957(a))?		
c	Do you own any stock of an IC–DISC?		
d	Do you claim any foreign tax credit?		
e	Do you control (within the meaning of section 304(c)) any corporation (other than a corporation included in this report) that has operations reportable under section 999(a)?		
	If "Yes," did the corporation controlled by you participate in or cooperate with an international boycott at any time during its tax year that ends with or within your tax year?		
f	Are you controlled (within the meaning of section 304(c)) by any person (other than a person included in this report) who has operations reportable under section 999(a)?		
	If "Yes," did the person controlling you participate in or cooperate with an international boycott at any time during its tax year that ends with or within your tax year?		
g	Are you treated under section 671 as the owner of a trust that has operations reportable under section 999(a)?		
h	Are you a partner in a partnership that has operations reportable under section 999(a)?		
i	Are you a foreign sales corporation (FSC) (as defined in section 922(a))?		

Part I Operations in or Related to a Boycotting Country (See Instructions)

		Yes	No
8	Boycott of Israel.—Did you have any operations in or related to any country (or with the government, a company or a national of that country) associated in carrying out the boycott of Israel which is on the list maintained by the Secretary of the Treasury under section 999(a)(3)(see Instruction C)		

If "Yes," enter name of the country(ies), taxpayer identifying number of person(s) having operations, principal business activity code, a description of the principal business activity; and if you are an IC-DISC, enter the product code. If necessary, attach additional sheets using the exact format and check this box ▶ ☐

	Name of country (1)	Taxpayer identifying number of person(s) having operations (2)	Principal business activity Code (3)	Principal business activity Description (4)	IC-DISCs only—Enter product code (5)
a					
b					
c					
d					
e					
f					
g					
h					
i					
j					
k					
l					
m					
n					
o					
p					

	Yes	No
9 Non-listed countries boycotting Israel.—Did you have operations in any non-listed country which you know or have reason to know requires participation in or cooperation with an international boycott directed against Israel?	☐	☐

If "Yes," enter the country(ies), taxpayer identifying number of person(s) having operations, the principal business activity code, a description of the principal business activity; and if you are an IC-DISC, enter the product code. If necessary, attach additional sheets using the exact format and check this box ▶ ☐

	Name of country	Taxpayer identifying number of person(s) having operations	Principal business activity		IC-DISCs only—Enter product code
			Code	Description	
	(1)	(2)	(3)	(4)	(5)
a					
b					
c					
d					
e					
f					
g					
h					

	Yes	No
10 Boycotts other than the boycott of Israel.—Did you have operations in any other country which you know or have reason to know requires participation in or cooperation with an international boycott other than the boycott of Israel?	☐	☐

If "Yes," enter the country(ies), taxpayer identifying number of person(s) having operations, the principal business activity code, a description of the principal business activity; and if you are an IC-DISC, enter the product code. If necessary, attach additional sheets using the exact format and check this box ▶ ☐

	Name of country	Taxpayer identifying number of person(s) having operations	Principal business activity		IC-DISCs only—Enter product code
			Code	Description	
	(1)	(2)	(3)	(4)	(5)
a					
b					
c					
d					
e					
f					
g					
h					

	Yes	No
11 Were you requested to participate in or cooperate with an international boycott? If "Yes," attach a copy (in English) of any and all such requests received during your tax year. If the request was in a form other than a written request, attach a separate sheet explaining the nature and form of any and all such requests. (See instructions.)	▨	▨
12 Did you, in fact, participate in or cooperate with an international boycott? If "Yes," attach a copy (in English) of any and all boycott clauses agreed to, and attach a general statement of the agreement. If the agreement was in a form other than a written agreement, attach a separate sheet explaining the nature and form of any and all such agreements. (See instructions.)	☐	☐

Note: *If the answer to either question 11 or 12 is "Yes," you must complete the rest of Form 5713. If you answered "Yes" to question 12, you must complete Schedules A or B and C (Form 5713).*

Part II Requests for and Acts of Participation in or Cooperation with an International Boycott

13 a Did you receive requests to enter into, or, in fact, enter into any agreement (See instruction F 3 and F 5):	Requests		Agreements	
Type of participation or cooperation	Yes	No	Yes	No
(1) As a condition of doing business directly or indirectly within a country or with the government, a company, or a national of a country to— (i) Refrain from doing business with or in a country which is the object of an international boycott or with the government, companies, or nationals of that country?				
(ii) Refrain from doing business with any United States person engaged in trade in a country which is the object of an international boycott or with the government, companies, or nationals of that country?				
(iii) Refrain from doing business with any company whose ownership or management is made up, all or in part, of individuals of a particular nationality, race, or religion, or to remove (or refrain from selecting) corporate directors who are individuals of a particular nationality, race, or religion?				
(iv) Refrain from employing individuals of a particular nationality, race, or religion?				
(2) As a condition of the sale of a product to the government, a company, or a national of a country, to refrain from shipping or insuring products on a carrier owned, leased or operated by a person who does not participate in or cooperate with an international boycott?				

b Requests and agreements —If the answer to any part of 13a is "Yes," indicate below: the country, the taxpayer identifying number, principal business activity code, description of the principal business activity, the number and the number code indicating the type of participation or cooperation requested or agreed to. Also, if you are an IC-DISC, enter the product code in column (5). (See Instructions.) If necessary, attach additional sheets using the exact format and check this box ▶ ☐

	Name of country	Taxpayer identifying number of person receiving the request or having the agreement	Principal business activity		IC-DISCs only—Enter product code	Type of cooperation or participation			
						Number of requests		Number of agreements	
			Code	Description		Total	Code	Total	Code
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
a									
b									
c									
d									
e									
f									
g									
h									
i									
j									
k									
l									
m									
n									
o									
p									
q									

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QUICK CHECK

ANTIBOYCOTT COMPLIANCE

18

Name ______________________________ Score __________

OBJECTIVE 1

Match terms associated with antiboycott legislation with their correct definitions. Write the correct letter in each blank.

____ 1. To refuse to do business with a specific person, company, or country for various reasons

____ 2. A boycott-based list of persons or firms with which business dealings are allowed

____ 3. The office within the Department of Commerce responsible for administering antiboycott laws by conducting investigations, educating the public, operating a telephone advisory service, and developing a yearly report to Congress

____ 4. A boycott-based list of persons or firms with which business dealings are not allowed

a. Blacklist

b. Boycott

c. Office of Antiboycott Compliance (OAC)

d. Whitelist

OBJECTIVE 2

Explain the purpose of antiboycott legislation. Include as many main points as possible.

OBJECTIVE 3 **Identify the two bodies of law and regulations restricting involvement in international boycotts.**

1. ____________________

2. ____________________

OBJECTIVE 4 **Compare the scope of boycott activities under the Export Administration Act and the Internal Revenue Code.** Write EAA or IRC in each blank.

____ 1. furnishing information about the race, religion, sex or national origin of a United States person or its owners, officers, directors, or employees

____ 2. refrain from doing business with any United States person engaged in trade with a boycotted country (i.e., refusing to do business with blacklisted companies)

____ 3. furnishing information concerning any other person's past, present or proposed business relationships with or in a boycotted country; with any business concern organized under the laws of a boycotted country; with any national or resident of a boycotted country; or with any other person who is known or believed to be restricted from having any business relationship with or in a boycotting country

____ 4. refrain from shipping or insuring any product sold pursuant to a particular sale on a carrier owned, leased, or operated by a person who does not participate in or cooperate with the boycott

____ 5. paying, honoring, confirming or otherwise implementing a letter of credit that contains as a condition or requirement of payment any of the above

____ 6. refrain from doing business with the government, companies, or nationals of a boycotted country

____ 7. refusing to do business or requiring any other person to refuse to do business with a boycotted company or in a boycotted country

____ 8. refrain from doing business with a company whose ownership or management includes individuals of a particular nationality, race, or religion

____ 9. refrain from employing individuals of a particular nationality, race, or religion

QUICK CHECK ANSWERS

ANTIBOYCOTT COMPLIANCE 18

OBJECTIVE 1

1. b
2. d
3. c
4. a

OBJECTIVE 2

The legislation does not challenge the right of any nation to implement a boycott against another nation, and is not intended to disrupt trade between the United States and any boycotting countries. The United States does approve of and support some boycotts, and implements specific licensing requirements and COCOM and other export controls through the Export Administration Regulations. The purpose of U.S. antiboycott legislation is to prevent U.S. entities from being used as tools of another nation's foreign policy and to contain the effect on the U.S. economy of the international boycotts that the United States does not approve of or support.

OBJECTIVE 3

1. The Export Administration Act of 1979
2. Section 999 (and related sections) of the Internal Revenue Code

OBJECTIVE 4

1. EAA
2. IRC
3. EAA
4. IRC
5. EAA
6. IRC
7. EAA
8. IRC
9. IRC

UNIT OBJECTIVES

FOREIGN CORRUPT PRACTICES ACT AND OTHER ISSUES

19

INTRODUCTION

The different ways that "money talks" around the world include "baksheesh," "bribe," "commission," "dash," "grease," "kumshaw," "mordida," and "payola." Such bribery can help some foreign businesses to obtain a competitive advantage over U.S. companies. The Foreign Corrupt Practices Act (FCPA) can help U.S. companies compete more equally against such competitors by allowing the U.S. company to demonstrate that payments made cover reasonable and bona fide expenses. Other legal issues concerning U.S. companies involved in export sales include legal rules governing the formation of international sales contracts, intellectual property rights protection (for patents, trademarks, copyrights, trade secrets, and other types), and product liability.

UNIT OBJECTIVE

After completing this unit, you will be familiar with the purpose of the Foreign Corrupt Practices Act and the possible penalties for noncompliance. You will also have a general understanding of the United Nations Convention on Contracts for the International Sale of Goods (CISG), the issue of intellectual property rights protection, and product liability involving export goods. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you should be able to

1. Match terms with their correct definitions.
2. Explain the purpose of the Foreign Corrupt Practices Act.
3. Identify the possible penalties for failing to comply with the Foreign Corrupt Practices Act.
4. State basic guidelines for complying with the Foreign Corrupt Practices Act.
5. Explain the purpose of the United Nations Convention on Contracts for the International Sale of Goods (CISG).
6. Describe how the CISG applies to international sales contracts.
7. State basic guidelines for using the CISG in international sales contracts.
8. Give common reasons for protecting intellectual property rights.
9. Explain the scope of intellectual property rights protection.

10. Discuss common problems in protecting intellectual property overseas.

11. Identify provisions of the Paris Convention.

12. State guidelines for protecting intellectual property rights.

13. State guidelines for product liability protection in foreign markets.

PREPARATION

- Order additional materials to supplement this unit.

  Publications

  - *A Basic Guide to Exporting* (Current edition). Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; or contact Department of Commerce district offices.
  - *A Summary of U.S. Export Administration Regulations*. Available from the Exporter Assistance Division, Publications and Regulations Branch, Room 1622, U.S. Department of Commerce, Washington, D.C. 20230 (202/377-2574).

  NOTE: Also see the Unit References.

- Review the unit and plan your presentation:
  - Estimate the amount of material that can be covered in each class session.
  - Plan for appropriate Assignments.
  - Identify objectives that you can supplement with other resources.
  - Invite guest speakers in advance.

    EXAMPLE: Area exporters, Department of Commerce specialists, or international legal counsel

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities.

DELIVERY

Objective 1

- Give examples of each term, if possible.

Objectives 2-4

- Invite qualified legal counsel to discuss the FCPA.
- Invite area exporters to discuss their experiences in complying with FCPA requirements.

- Discuss examples of poor decisions and missed opportunities relating to FCPA compliance.
- Explain the many opportunities for accidentally violating the FCPA and give examples that support the need for training export personnel at all levels.

Objectives 5-7

- Describe possible disagreements.
- Provide copies of the CISG from the *Federal Register* of March 2, 1987, if possible.
- Emphasize the importance of consulting with qualified legal counsel before entering into any contract or agreement.

Objectives 8-12

- Identify examples of intellectual property.
- Describe possible situations involving disputes and/or financial losses related to intellectual property rights protection.

Objective 13

- Give examples of possible problems involving product liability (or ask qualified legal counsel to discuss such problems).

EVALUATION

- Give the Quick Check soon after presenting the unit.
- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- *A Basic Guide to Exporting*, U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service. September 1986.
- "Protecting Intellectual Property Rights Abroad: Pointers for U.S. Exporters," by Guy C. Smith, in *Business America* magazine, U.S. Department of Commerce. November 21, 1988.

- "The U.N. Sales Convention: A New Tool to Help In Drafting International Sales Contracts," by Mark A. Goldstein, in *Business America* magazine, U.S. Department of Commerce. November 21, 1988.

- *A Summary of U.S. Export Administration Regulations*, International Trade Administration, Office of Export Administration. January 1985.

- *An Executive Guide to the Foreign Corrupt Practices Act in International Transactions*, by Michael G. Deal. September 1988.

OBJECTIVE 1

Match terms with their correct definitions.

Copyright—A form of intellectual property that prevents the unauthorized reproduction of specific kinds of original works of authorship

EXAMPLE: Literary works, musical works, computer software, artistic works, and others

Intellectual property—A broad collection of rights relating to things such as books, films, inventions, trademarks, patents, service marks, and trade secrets

Intellectual property laws—Laws that create, confirm, or regulate a property right without which others could use or copy an idea, an expression, a design, or a product or its mark and packaging

Paris Convention for the Protection of Industrial Property ("Paris Convention")—An international patent and trademark convention requiring member nations to provide equal treatment for their own citizens and foreigners in granting patent or trademark rights, and setting forth a right of priority for patent and trademark applications

Patent—A right granted to an inventor by the government allowing the inventor to exclude others from making, using, or selling the invention for a specified period of time in exchange for disclosing the invention to the public

Trademark—An identifying mark, such as a word or symbol, used by a business to distinguish its goods and services from those of other businesses

Trade secret—Information that a business seeks to keep secret because the information may not be known outside the business and may be the source of a competitive advantage, such as formulas, manufacturing methods, designs, and others

OBJECTIVE 2

Explain the purpose of the Foreign Corrupt Practices Act.

The Foreign Corrupt Practices Act (FCPA) has two main purposes. **The FCPA prohibits certain payments, offers of payments, and gifts** from public and private corporations and individuals to foreign officials, foreign political parties, or foreign political candidates, to influence a foreign government in order to obtain, retain, or direct business to any person. **The FCPA also discourages such bribery by establishing recordkeeping and in-house accounting control requirements** for all publicly-traded corporations, whether or not these corporations are engaged in international business. These accounting standards include keeping detailed books, records and accounts, as well as maintaining a system of in-house accounting controls. (The U.S. Department of Justice and the Securities and Exchange Commission share enforcement responsibilities.)

Bribery can help some foreign businesses to obtain a competitive advantage over U.S. companies. **The FCPA can help U.S. companies compete more equally against such competitors by allowing the U.S. company to demonstrate that payments made cover reasonable and bona fide expenses.**

OBJECTIVE 3

Identify the possible penalties for failing to comply with the Foreign Corrupt Practices Act.

1. Businesses are subject to fines of up to $2,000,000.00 per violation

2. Individual officers, employees and agents who commit or permit the unlawful acts are subject to imprisonment for up to five years and fines of up to $100,000.00

   NOTE: Employers cannot pay or reimburse individuals for the fines imposed on the individual.

3. Civil penalties of up to $100,000.00 per violation

OBJECTIVE 4

State basic guidelines for complying with the Foreign Corrupt Practices Act.

- Get advice from the Department of Commerce and from qualified, objective outside legal counsel.

  NOTE: Competitive pressures could trigger a poor decision that is more costly than the transaction itself, while being too cautious could result in missing a legitimate opportunity.

- Educate everyone.

  NOTE: Lower-level employees often commit the violation. Be sure that management and other employees receive training.

- Establish and regularly evaluate a written in-house compliance program.

- Document operations, transactions and arrangements vulnerable to FCPA violations, and the compliance activities related to them.

- Adopt an official written policy against corrupt practices.

OBJECTIVE 5

Explain the purpose of the United Nations Convention on Contracts for the International Sale of Goods (CISG).

As with domestic contracts, **international sales contracts can become the subject of legal disputes**. However, international sales contracts **can also create questions about the "choice of law,"** or which law governs any problems that may result from the sale. For example, does U.S. law, the law of the foreign country, or the law of any third country that is a party to the sale apply? The choice of law can lead to disagreements with foreign buyers when negotiating a sales contract. Frequently, the choice of law might not be specified in a contract because of the informal nature of many contracts, or other reasons.

The purpose of the CISG is to establish uniform legal rules governing the formation of international sales contracts, including the rights and obligations of the buyer and seller. The CISG can help exporters to draft international sales contracts and avoid choice of law disagreements with foreign buyers by serving as a compromise text on choice of law questions. In addition, the CISG could reduce the time and expense needed to research unfamiliar foreign laws.

NOTE: The parties to the CISG are: Argentina, Australia, Austria, Egypt, Finland, France, Hungary, Italy, Lesotho, Mexico, Norway, People's Republic of China, Sweden, Syria, United States, Yugoslavia, and Zambia. (The parties to the CISG will probably increase.)

OBJECTIVE 6

Describe how the CISG applies to international sales contracts.

The CISG applies **automatically** to all contracts for the sale of goods between traders from two different countries where both countries have ratified the CISG.

NOTE: The CISG applies automatically **unless** the parties to the contract (1) expressly exclude all or part of the CISG, (2) expressly provide a choice of law clause that stipulates a law other than that of the CISG, or (3) expressly choose to apply the CISG when it would **not** automatically apply.

FOR YOUR INFORMATION

The parts of the CISG and the general coverage of each

Part I—Sphere of Application and General Provisions (Articles 1-13)

Provides that the CISG covers the international sale of most commercial goods, with exceptions.

NOTE: The CISG does not cover: the sales of goods bought for personal use; sales of ships or aircraft; or contracts for the sale of labor or services. The CISG also does not govern the validity of the contract, or liability for death or personal injury caused by the goods.

Part II—Formation of the Contract (Articles 14-24)

Provides rules on offer and acceptance.

Part III—Sale of Goods (Articles 25-88)

Covers the obligations of the seller and the buyer.

Part IV—Final Provisions (Articles 89-101)

Covers the right of a country to disclaim certain parts of the convention.

SOURCE: *Business America* magazine, November 21, 1988.

OBJECTIVE 7 **State basic guidelines for using the CISG in international sales contracts.**

- Consult with qualified legal counsel before entering into any contract or agreement.
- Know whether the export sale could involve the provisions of the CISG.
- Review the complete provisions of the CISG.

  NOTE: The U.N.-certified English-language text of the CISG was published in the *Federal Register* on March 2, 1987. Contact the trade specialists at the Department of Commerce for more information, if needed.

- Determine the need to modify export documents and other documents that contain terms and conditions of offer and sale.
- Determine the need to modify any agreements, before they expire.

OBJECTIVE 8 **Give common reasons for protecting intellectual property rights.**

- To protect a competitive advantage in the U.S. and in foreign countries
- To protect royalties under any negotiated licensing agreements
- To help protect foreign end-users from poor-quality counterfeit goods

  EXAMPLE: If your property rights are not protected, someone else could manufacture and sell a poor-quality imitation of your goods.

- To protect the manufacturer's investment

OBJECTIVE 9 **Explain the scope of international property rights protection.**

Property rights protection varies overseas. In some countries, protection for certain kinds of intellectual property may not be available at all. Other countries might not aggressively enforce existing laws, might not enforce the laws at all, or might demand penalties that are so weak, that the law does not act to prevent violations.

Intellectual property laws have a limited reach, including U.S. intellectual property laws. Any rights conferred by copyrights, patents, or trademarks granted under U.S. law will extend only to the United States and to U.S. territories and possessions. Likewise, any rights granted by foreign intellectual property laws will not extend beyond the borders of the foreign country.

U.S. manufacturers must be aware that no international agreement completely defines the types of intellectual property.

OBJECTIVE 10

Discuss common problems in protecting intellectual property overseas.

COPYRIGHTS—The kinds of works protected under copyright are different from one country to another. Something that is protected under copyright in the U.S. may have limited protection or no protection in a foreign market. The length of copyright protection may also vary. In addition, foreign enforcement of copyright protection can be less than aggressive and penalties can be weak and ineffective.

PATENTS—Foreign protection for patents can vary in terms of the type of protection, the length of protection, and the priority for patent applications. A patent can cover different goods in different countries, or cover only a process and not the resulting product. The term for an equivalent patent in a foreign country can be longer or shorter than in the U.S., and might be measured from the date of filing instead of from the date of issuance (as measured in the U.S.).

Also, most countries issue patents to the **first applicant to file** the patent application, instead of giving priority to the **first applicant to invent** the product or process for which the patent is sought (as is the standard in the U.S.). Finally, as with other types of intellectual property, foreign enforcement may not be aggressive or may not exist at all.

IMPORTANT: For a foreign patent application based on a U.S. patent, you must file the application within one (1) year of the U.S. filing date.

TRADEMARKS—Differences in registration requirements in foreign countries can affect the degree of protection provided for a U.S. manufacturer's trademark and can open the door to counterfeit goods. In contrast to the United States, many countries determine ownership of a trademark through registration alone and defining the legal owner as the first person to register the trademark. (In the U.S., prior commercial use is a prerequisite to registration.) A U.S. manufacturer could lose protection for a trademark in a foreign country if another person is the first to register the mark. As with copyrights and patents, foreign enforcement of trademark protection may not be aggressive or may not exist.

TRADE SECRETS—In protecting a U.S. manufacturer's trade secrets, the laws of a foreign country might extend protection to cover only the disclosure of the information by the parties to an agreement containing trade secret provisions, instead of extending protection to third-party disclosure (as is possible in the U.S.). In addition, many countries limit the length of time that a non-disclosure provision can be in effect.

OBJECTIVE 11

Identify provisions of the Paris Convention.

- Requires member nations to provide equal treatment for their own citizens and foreigners in granting patent or trademark rights

- Allows **patent applicants** who have filed an initial application in a member nation to use that filing date as the priority date in other member nations for applications filed within **twelve (12) months** from the date of the initial patent application

  NOTE: The twelve-month priority period begins on the **filing date** of the patent application, not on the date of issuance of the patent. Therefore, a U.S. applicant has twelve (12) months from the date of filing a patent application in the United States to obtain the right of priority outlined in the convention.

- Allows **trademark registrants** who have filed an initial registration in a member nation to use that filing date in other member nations for registrations filed within **six (6) months** from the date of the initial trademark registration

OBJECTIVE 12

State guidelines for protecting intellectual property rights.

- Protect all intellectual property under all applicable U.S. laws before exporting.
- Investigate common problems involving intellectual property rights in target markets.
- Obtain protection for intellectual property rights under the laws of target market countries.
- Use applicable international agreements.
- Consult with DOC trade specialists and with qualified legal counsel before exporting.

OBJECTIVE 13

State guidelines for product liability protection in foreign markets.

- Be sure that domestic product liability insurance covers events and occurrences outside the United States.
- Caution all representatives against making promises that go beyond warranties.
- Consult with DOC trade specialists and with qualified legal counsel before exporting.

QUICK CHECK

FOREIGN CORRUPT PRACTICES ACT AND OTHER ISSUES

19

Name ________________________ Score ________

OBJECTIVE 1

Match terms with their correct definitions. Write the correct letter in each blank.

____ 1. A right granted to an inventor by the government allowing the inventor to exclude others from making, using, or selling the invention for a specified period of time in exchange for disclosing the invention to the public

____ 2. A broad collection of rights relating to things such as books, films, inventions, trademarks, patents, service marks, and trade secrets

____ 3. A form of intellectual property that prevents the unauthorized reproduction of specific kinds of original works of authorship

____ 4. An international patent and trademark convention requiring member nations to provide equal treatment for their own citizens and foreigners in granting patent or trademark rights, and setting forth a right of priority for patent and trademark applications

____ 5. Laws that create, confirm, or regulate a property right without which others could use or copy an idea, an expression, a design, or a product or its mark and packaging

____ 6. Information that a business seeks to keep secret because the information may not be known outside the business and may be the source of a competitive advantage, such as formulas, manufacturing methods, designs, and others

____ 7. An identifying mark, such as a word or symbol, used by a business to distinguish its goods and services from those of other businesses

a. Copyright

b. Intellectual property

c. Intellectual property laws

d. Paris Convention for the Protection of Industrial Property ("Paris Convention")

e. Patent

f. Trademark

g. Trade secret

OBJECTIVE 2

Explain the purpose of the Foreign Corrupt Practices Act. Include as many main points as possible.

OBJECTIVE 3

Identify the possible penalties for failing to comply with the Foreign Corrupt Practices Act. Write an"X"in the blank beside each possible penalty.

____ 1. Businesses are subject to fines of up to $2,000,000.00 per violation

____ 2. Individual officers, employees and agents who commit or permit the unlawful acts are subject to imprisonment for up to five years and fines of up to $100,000.00

____ 3. Whoever knowingly violates the Act, regulations, a license, or an oustanding order shall be fined not more than five times the value of the exports involved or $50,000, whichever is greater, or imprisoned not more than 5 years, or both.

____ 4. Civil penalties of up to $100,000.00 per violation

OBJECTIVE 4

State basic guidelines for complying with the Foreign Corrupt Practices Act. State three (3) basic guidelines.

1. ____

2. ____

3.

OBJECTIVE 5

Explain the purpose of the United Nations Convention on Contracts for the International Sale of Goods (CISG). Include as many main points as possible.

OBJECTIVE 6

Describe how the CISG applies to international sales contracts.

OBJECTIVE 7

State basic guidelines for using the CISG in international sales contracts. State three (3) basic guidelines.

1.

2.

3.

OBJECTIVE 8

Give common reasons for protecting intellectual property rights. Write an "X" in the blank beside each reason.

____ 1. To protect a competitive advantage in the U.S. and in foreign countries

____ 2. To protect royalties under any negotiated licensing agreements

____ 3. To prevent competitors from selling similar goods overseas

____ 4. To help protect foreign end-users from poor-quality counterfeit goods

____ 5. To protect the manufacturer's investment

OBJECTIVE 9

Explain the scope of international property rights protection. Include as many main points as possible.

OBJECTIVE 10

Discuss common problems in protecting intellectual property overseas. Answer the following questions.

1. Do the kinds of works protected under copyright in the United States have the same protection in a foreign market?

   ____

2. Might the length of copyright protection vary?

   ____

3. Instead of measuring the term for a patent from the date of issuance, from what date might the term be measured for an equivalent patent in a foreign country?

____

4. In most countries, to whom is a patent issued: to the first applicant to file, or to the first applicant to invent?

____

5. How do many countries determine ownership of a trademark? (In the U.S., prior commercial use is a prerequisite to registration.)

____

6. Is protection against third-party disclosure of trade secret information extended in all foreign countries?

____

OBJECTIVE 11

Identify provisions of the Paris Convention. Write an"X"in the blank beside each provision.

____ 1. Requires member nations to provide equal treatment for their own citizens and foreigners in granting patent or trademark rights

____ 2. Allows **patent applicants** who have filed an initial application in a member nation to use that filing date as the priority date in other member nations for applications filed within **twelve (12) months** from the date of the initial patent application

____ 3. Allows **trademark registrants** who have filed an initial registration in a member nation to use that filing date in other member nations for registrations filed within **six (6) months** from the date of the initial trademark registration

____ 4. Allows **trademark registrants** who have filed an initial registration in a member nation to use that filing date in other member nations for registrations filed within **twelve (12) months** from the date of the initial trademark registration

OBJECTIVE 12

State guidelines for protecting intellectual property rights. State three (3) guidelines.

1. ______________________________

____

2. ______________________________

____

3. ______________________________

____

OBJECTIVE 13

State guidelines for product liability protection in foreign markets. State two (2) guidelines.

1. ______________________________

____

2. ______________________________

____

OBJECTIVE 1

1. e
2. b
3. a
4. d
5. c
6. g
7. f

OBJECTIVE 2

The Foreign Corrupt Practices Act (FCPA) has two main purposes. The FCPA prohibits certain payments, offers of payments, and gifts from public and private corporations and individuals to foreign officials, foreign political parties, or foreign political candidates, to influence a foreign government in order to obtain, retain, or direct business to any person. The FCPA also discourages such bribery by establishing recordkeeping and in-house accounting control requirements for all publicly-traded corporations, whether or not these corporations are engaged in international business. These accounting standards include keeping detailed books, records and accounts, as well as maintaining a system of in-house accounting controls.

Bribery can help some foreign businesses to obtain a competitive advantage over U.S. companies. The FCPA can help U.S. companies compete more equally against such competitors by allowing the U.S. company to demonstrate that payments made cover reasonable and bona fide expenses.

OBJECTIVE 3

1, 2, 4.

OBJECTIVE 4

Any three of the following:

- Get advice from the Department of Commerce and from qualified, objective outside legal counsel.
- Educate everyone.
- Establish and regularly evaluate a written in-house compliance program.
- Document operations, transactions and arrangements vulnerable to FCPA violations, and the compliance activities related to them.
- Adopt an official written policy against corrupt practices.

OBJECTIVE 5

The purpose of the CISG is to establish uniform legal rules governing the formation of international sales contracts, including the rights and obligations of the buyer and seller. The CISG can help exporters to draft international sales contracts and avoid choice of law disagreements with foreign buyers by serving as a compromise text on choice of law questions. In addition, the CISG could reduce the time and expense needed to research unfamiliar foreign laws.

OBJECTIVE 6

The CISG applies **automatically** to all contracts for the sale of goods between traders from two different countries where both countries have ratified the CISG.

OBJECTIVE 7

Any three of the following:

- Consult with qualified legal counsel before entering into any contract or agreement.
- Know whether the export sale could involve the provisions of the CISG.
- Review the complete provisions of the CISG.
- Determine the need to modify export documents and other documents that contain terms and conditions of offer and sale.
- Determine the need to modify any agreements, before they expire.

OBJECTIVE 8

1, 2, 4, 5.

OBJECTIVE 9

Property rights protection varies overseas. In some countries, protection for certain kinds of intellectual property may not be available at all. Other countries might not aggressively enforce existing laws, might not enforce the laws at all, or might demand penalties that are so weak, that the law does not act to prevent violations.

Intellectual property laws have a limited reach, including U.S. intellectual property laws. Any rights conferred by copyrights, patents, or trademarks granted under U.S. law will extend only to the United States and to U.S. territories and possessions. Likewise, any rights granted by foreign intellectual property laws will not extend beyond the borders of the foreign country.

U.S. manufacturers must be aware that no international agreement completely defines the types of intellectual property.

OBJECTIVE 10

1. No.
2. Yes.
3. From the date of filing.
4. The first applicant to file.
5. Through registration alone and defining the legal owner as the first person to register the trademark.
6. No.

OBJECTIVE 11

1, 2, 3.

OBJECTIVE 12

Any three of the following:

- Protect all intellectual property under all applicable U.S. laws before exporting.
- Investigate common problems involving intellectual property rights in target markets.
- Obtain protection for intellectual property rights under the laws of target market countries.
- Use applicable international agreements.
- Consult with DOC trade specialists and with qualified legal counsel before exporting.

OBJECTIVE 13

Any two of the following:

- Be sure that domestic product liability insurance covers events and occurrences outside the United States.
- Caution all representatives against making promises that go beyond warranties.
- Consult with DOC trade specialists and with qualified legal counsel before exporting.

UNIT OBJECTIVES

DISPUTE PREVENTION AND RESOLUTION

20

INTRODUCTION

Preventing and resolving disputes is important for many reasons. It can help preserve a valuable, long-term business relationship in the foreign market. Preventing and resolving disputes can help protect the reputation of your company and your goods in the foreign market. It can also prevent added costs to the exporter and to other parties involved, including the damage to (or loss of) your working relationship with the foreign party involved; damage to the reputation of your firm, the foreign party, and your goods in the foreign market; loss of sales and sales potential; the costs associated with a technical or other problem that is not corrected; and others. In addition, the possible consequences of terminating agreements for foreign representation highlight the importance of preventing and resolving disputes.

Disputes can happen regardless of your efforts to prevent them.

UNIT OBJECTIVE

After completing this unit, you should recognize the value of preventing and resolving international disputes, be familiar with methods for resolving disputes, and know formal and informal responses to an international dispute. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you should be able to

1. Match terms associated with dispute prevention and resolution with their correct definitions.
2. Explain the importance of preventing and resolving international disputes.
3. State basic guidelines for preventing international disputes.
4. Match methods for resolving disputes with their advantages and disadvantages.
5. Arrange the responses to an international dispute in order from least formal to most formal.

SUGGESTED ACTIVITIES — DISPUTE PREVENTION AND RESOLUTION 20

PREPARATION

- Order additional materials to supplement this unit.

  Publications

  - *A Basic Guide to Exporting* (Current edition). Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; or contact Department of Commerce district offices.

  NOTE: Also see the Unit References.

- Review the unit and plan your presentation:
  - Estimate the amount of material that can be covered in each class session.
  - Plan for appropriate Assignments.
  - Identify objectives that you can supplement with other resources.
  - Invite guest speakers in advance.

    EXAMPLE: Area exporters and international legal counsel

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities.

DELIVERY

Objectives 1-5

- Identify examples of potential disputes.
- Discuss the importance of preventing and resolving disputes as alternatives to terminating potentially valuable relationships. Discuss as a group the relationship between a long-term commitment to export sales and dispute prevention and resolution.
- Review the expectations of the exporter and the foreign representative. Ask participants how many disputes might be avoided by meeting these expectations.

- Discuss as a group the importance of negotiating *before* trying other methods for resolving a dispute.

EVALUATION

- Give the Quick Check soon after presenting the unit.
- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- *A Basic Guide to Exporting*, U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service. September 1986.
- "Enforcement of Foreign Arbitral Awards under the U.N. Convention," by Ovidio M. Giberga, in *Foreign Business Practices*, U.S. Department of Commerce, International Trade Administration. 1985.
- "The Legal Pitfalls of Negotiating with Foreign Agents," by Ovidio M. Giberga (revised by Brian C. Murphy), in *Business America* magazine, U.S. Department of Commerce. July 21, 1986.

SPECIFIC OBJECTIVES

DISPUTE PREVENTION AND RESOLUTION 20

OBJECTIVE 1

Match terms associated with dispute prevention and resolution with their correct definitions.

Ad hoc arbitration—Arbitration administered and conducted under terms agreed upon by the parties to the dispute

NOTE: The term "ad hoc" means "for a particular purpose."

Arbitration—A method of resolving a dispute in which the parties to the dispute choose an impartial decision-maker to settle the dispute in a setting agreeable to all parties

Arbitrator—The impartial decision-maker in an arbitration, agreed-upon by the parties to a dispute or by an accepted arbitration organization, serving individually or in panels and including, but not limited to, technical experts, legal experts, management representatives and others able to handle issues relating to the particular dispute

American Arbitration Association (AAA)—An organization whose members are committed to resolving disputes through arbitration and other voluntary methods; functions include providing administrative services for different methods of dispute resolution, referring parties in a dispute to arbitrators and mediators, maintaining a library covering topics in dispute resolution, and educating the public

NOTE: AAA members include businesses, law firms, arbitrators, trade associations, interested individuals and others.

Choice of forum—Relating to dispute resolution through legal action (litigation), the selection of the court having jurisdiction over the dispute by the parties involved

Institutional arbitration—Arbitration administered by an impartial organization not associated with the dispute and conducted according to the rules of that organization

EXAMPLE: Arbitrations handled by the International Chamber of Commerce (ICC) or the American Arbitration Association (AAA)

Negotiation—A method of resolving a dispute in which the parties themselves settle the dispute by discussing the issues involved and agreeing on a solution

New York Convention on Enforcement of Foreign Arbitral Awards ("New York Convention")—An international standard for recognizing and enforcing in member countries arbitral awards made in other countries

OBJECTIVE 2

Explain the importance of preventing and resolving international disputes.

International disputes can have many causes. Disputes between exporters and foreign parties to an export sale can happen when either party fails to satisfy its obligations, fails to satisfy its obligations in a satisfactory way, or acts against the interests of another party. For example, a dispute could involve a default on payments or other collection problem, bad faith or breach of contract, poor performance, unacceptable activities, violation of intellectual property rights, and other causes. International disputes can also have simple and often preventable causes such as a misunderstanding or technical problem.

Preventing and resolving disputes is important for many reasons. **First, it can help preserve a valuable, long-term business relationship in the foreign market**. A long-term commitment to export sales can pay off. Part of this commitment involves establishing a long-term working relationship with foreign parties to the export sale, such as agents, distributors and others. Disputes have the potential to weaken or destroy this relationship. **Second, it can help protect the reputation of your firm and your goods in the foreign market**. An unresolved or poorly-resolved dispute can permanently damage the reputation of your firm and your goods in the particular foreign market. Preventing and correctly responding to a potential dispute can affect your continued ability to sell your goods in the foreign market.

Third, it can prevent added costs to the exporter and to other parties involved. Unresolved or poorly-resolved disputes can be expensive to the exporter and to the foreign parties involved. These costs include the damage to (or loss of) your working relationship with the foreign party involved; damage to the reputation of your firm, the foreign party, and your goods in the foreign market; loss of sales and sales potential; the costs associated with a technical or other problem that is not corrected; and others. In addition, the possible consequences of terminating agreements for foreign representation highlight the importance of preventing and resolving disputes.

NOTE: Disputes can happen regardless of your efforts to prevent them.

OBJECTIVE 3

State basic guidelines for preventing international disputes.

- Choose foreign representation carefully.

  NOTE: Evaluate the creditworthiness, facilities, methods of operation and other specifics of potential foreign representation.

- Be specific about the responsibilities of all parties to a written agreement.

- Define terms clearly.

  NOTE: If possible, require that the English version of all terms will prevail in cases of doubt or controversy.

- Clearly outline performance standards and evaluation criteria.

- Communicate regularly.

  EXAMPLE: Communicate as appropriate by phone, letter, fax, and personal visits.

- Respond promptly.

  NOTE: Treat foreign parties to the export sale equally with their U.S. counterparts and do not ignore their concerns.

- Be flexible.

  NOTE: To prevent a dispute, you might have to compromise in order to reach an agreement that is acceptable to all parties involved.

- Consult with qualified legal counsel before contracting.

- Consult with international banking specialists about common collection problems.

  EXAMPLE: Banking specialists can advise about appropriate methods of payment and can assist in preparing documents required under the terms of letters of credit.

OBJECTIVE 4

Match methods for resolving disputes with their advantages and disadvantages.

NEGOTIATION

*A = Advantage; D = Disadvantage

A Can eliminate the need for any other method

A Can preserve a valuable business relationship

A Is simple and inexpensive

D Cannot guarantee a resolution

ARBITRATION

*A = Advantage; D = Disadvantage

A Provides for an impartial hearing by subject-matter experts, appointed by the parties themselves or by a recognized arbitration service

A Compared to court proceedings, can be less expensive, may result in a faster decision, and can allow for greater privacy

A Arbitration awards rendered in cases involving parties from countries that are members of the New York Convention may be enforced by the courts of member countries

D Lacks binding legal rules

D May suffer from jurisdictional allowances

EXAMPLE: Suspended proceedings to apply for interim court judgments, post-award review

D Cannot guarantee enforcement of the award in countries that are not members of the New York Convention

LEGAL ACTION (LITIGATION)/COURT PROCEEDINGS

*A = Advantage; D = Disadvantage

A May be the only remaining alternative

IMPORTANT: Legal action should not be your first alternative for resolving a dispute. However, legal action might be justified when other alternatives fail. You should consult qualified legal counsel before initiating legal action to resolve an international dispute.

A Results in a binding but potentially unenforceable judgment

D Damages the business relationship between the parties to the dispute

NOTE: Legal action will damage your business relationships in the foreign market and can also permanently damage your firm's reputation in the foreign market.

D Requires more time and expense than other alternatives

D Complicates the process of dispute resolution by adding complex legal procedures

NOTE: The legal procedures involved could create additional disputes that are unrelated to the original dispute.

D Can lead to multiple proceedings in the courts of two or more countries

NOTE: This can especially become a problem when the parties to a dispute fail to agree upon the choice of forum.

OBJECTIVE 5 **Arrange the responses to an international dispute in order from least formal to most formal.**

1. Negotiate.

   IMPORTANT: Negotiation should be your first response to a dispute. Through negotiations, you might be able to compromise and reach an agreement that is acceptable to all parties involved.

2. Arbitrate.

   NOTE: Consider arbitration if negotiations fail.

3. Litigate.

   IMPORTANT: Legal action should not be your first alternative for resolving a dispute. However, legal action might be justified when other alternatives fail. You should consider the advantages and disadvantages of legal action in terms of your specific situation. Always consult qualified legal counsel before initiating legal action to resolve an international dispute.

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QUICK CHECK

DISPUTE PREVENTION AND RESOLUTION

20

Name ______________________________ Score ________

OBJECTIVE 1

Match terms associated with dispute prevention and resolution with their correct definitions. Write the correct letter in each blank.

____ 1. A method of resolving a dispute in which the parties to the dispute choose an impartial decision-maker to settle the dispute in a setting agreeable to all parties

____ 2. Arbitration administered and conducted under terms agreed upon by the parties to the dispute

____ 3. An organization whose members are committed to resolving disputes through arbitration and other voluntary methods; functions include providing administrative services for different methods of dispute resolution, referring parties in a dispute to arbitrators and mediators, maintaining a library covering topics in dispute resolution, and educating the public

____ 4. An international standard for recognizing and enforcing in member countries arbitral awards made in other countries

____ 5. Relating to dispute resolution through legal action (litigation), the selection of the court having jurisdiction over the dispute by the parties involved

____ 6. A method of resolving a dispute in which the parties themselves settle the dispute by discussing the issues involved and agreeing on a solution

a. Ad hoc arbitration

b. Arbitration

c. Arbitrator

d. American Arbitration Association (AAA)

e. Choice of forum

f. Institutional arbitration

g. Negotiation

h. New York Convention on Enforcement of Foreign Arbitral Awards ("New York Convention")

____7. The impartial decision-maker in an arbitration, agreed-upon by the parties to a dispute or by an accepted arbitration organization, serving individually or in panels and including, but not limited to, technical experts, legal experts, management representatives and others able to handle issues relating to the particular dispute

____8. Arbitration administered by an impartial organization not associated with the dispute and conducted according to the rules of that organization

OBJECTIVE 2 **Explain the importance of preventing and resolving international disputes.** Include as many main points as possible.

OBJECTIVE 3

State basic guidelines for preventing international disputes. State six (6) guidelines.

1. ____

____

2. ____

____

3. ____

____

4. ____

____

5. ____

____

6. ____

____

OBJECTIVE 4

Match methods for resolving disputes with their advantages and disadvantages. Write the correct letter in each blank.

____ 1. Results in a binding but potentially unenforceable judgment

____ 2. Can preserve a valuable business relationship

____ 3. Is simple and inexpensive

____ 4. Cannot guarantee a resolution

____ 5. Complicates the process of dispute resolution by adding complex legal procedures

____ 6. Provides for an impartial hearing by subject-matter experts, appointed by the parties themselves or by a recognized arbitration service

____ 7. Lacks binding legal rules

____ 8. Cannot guarantee enforcement of the award in countries that are not members of the New York Convention

____ 9. May be the only remaining alternative

a. Negotiation

b. Arbitration

c. Legal action (litigation)/ court proceedings

___10. Damages the business relationship between the parties to the dispute

___11. Compared to court proceedings, can be less expensive, may result in a faster decision, and can allow for greater privacy

___12. Requires more time and expense than other alternatives

___13. Can eliminate the need for any other method

___14. Arbitration awards rendered in cases involving parties from countries that are members of the New York Convention may be enforced by the courts of member countries

___15. Can lead to multiple proceedings in the courts of two or more countries

___16. May suffer from jurisdictional allowances

OBJECTIVE 5

Arrange the responses to an international dispute in order from least formal to most formal. Write the correct number 1-3 in each blank.

____Arbitrate

____Litigate

____Negotiate

QUICK CHECK ANSWERS

DISPUTE PREVENTION AND RESOLUTION

20

OBJECTIVE 1

1. b
2. a
3. d
4. h
5. e
6. g
7. c
8. f

OBJECTIVE 2

Preventing and resolving disputes is important for many reasons. **First, it can help preserve a valuable, long-term business relationship in the foreign market**. A long-term commitment to export sales can pay off. Part of this commitment involves establishing a long-term working relationship with foreign parties to the export sale, such as agents, distributors and others. Disputes have the potential to weaken or destroy this relationship. **Second, it can help protect the reputation of your firm and your goods in the foreign market**. An unresolved or poorly-resolved dispute can permanently damage the reputation of your firm and your goods in the particular foreign market. Preventing and correctly responding to a potential dispute can affect your continued ability to sell your goods in the foreign market.

Third, it can prevent added costs to the exporter and to other parties involved. Unresolved or poorly-resolved disputes can be expensive to the exporter and to the foreign parties involved. These costs include the damage to (or loss of) your working relationship with the foreign party involved; damage to the reputation of your firm, the foreign party, and your goods in the foreign market; loss of sales and sales potential; the costs associated with a technical or other problem that is not corrected; and others. In addition, the possible consequences of terminating agreements for foreign representation highlight the importance of preventing and resolving disputes.

OBJECTIVE 3

Any six of the following:

- Choose foreign representation carefully.
- Be specific about the responsibilities of all parties to a written agreement.
- Define terms clearly.

- Clearly outline performance standards and evaluation criteria.
- Communicate regularly.
- Respond promptly.
- Be flexible.
- Consult with qualified legal counsel before contracting.
- Consult with international banking specialists about common collection problems.

OBJECTIVE 4

1. c
2. a
3. a
4. a
5. c
6. b
7. b
8. b
9. c
10. c
11. b
12. c
13. a
14. b
15. c
16. b

OBJECTIVE 5

2 Arbitrate

3 Litigate

1 Negotiate

UNIT OBJECTIVES

IN-HOUSE REGULATORY COMPLIANCE PROGRAMS

21

INTRODUCTION

Competitive pressures could lead to an intentional or accidental violation of an export compliance area that is potentially more costly to the company than the actual export sale. Violations of export regulations and other compliance areas, such as export licensing, U.S. export regulations, and FCPA and antiboycott compliance, can also occur within different company departments involved in an export transaction. Because of the many opportunities for regulatory violations, companies involved in exporting should design and implement a centralized in-house compliance program involving the close cooperation of all functional "departments" involved in the export sale.

UNIT OBJECTIVE

After completing this unit, you should be familiar with possible components and objectives of an in-house compliance program for the different regulatory and legal issues involved in company export operations. You should also recognize the importance of management commitment to effective compliance programs. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you should be able to

1. State purposes of in-house regulatory compliance programs.
2. Discuss the importance of management commitment to effective compliance programs.
3. Match possible components of a written, in-house compliance program with the objectives of each component.
4. Identify qualifications of compliance program reviewers.
5. State basic guidelines for designing in-house regulatory compliance programs.

PREPARATION

- Order additional materials to supplement this unit.

  NOTE: Also see the Unit References.

- Review the unit and plan your presentation:
  - Estimate the amount of material that can be covered in each class session.
  - Plan for appropriate Assignments.
  - Identify objectives that you can supplement with other resources.
  - Invite guest speakers in advance.

    EXAMPLE: Area exporters, international legal counsel, or international banking specialists

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities.

DELIVERY

Objectives 1-4

- Review the legal issues that affect export sales.
- Emphasize that the given outline is one example only. Discuss the possible ways of meeting the objectives of each component.
- Invite area exporters to describe their in-house compliance programs. Identify important points of export transactions (and the export personnel responsible) that deserve special attention from export management to ensure compliance.
- Discuss as a group the importance of each of the qualifications of program reviewers. Suggest ways for identifying qualified reviewers.

Objective 5

- Emphasize the importance of objective, outside advice and legal counsel in making sound decisions regarding legal issues.

- Emphasize the use of general export licenses whenever possible.

EVALUATION

- Give the Quick Check soon after presenting the unit.
- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- "Protecting Intellectual Property Rights Abroad: Pointers for U.S. Exporters," by Guy C. Smith, in *Business America* magazine, U.S. Department of Commerce, November 21, 1988.
- "Export Licensing" workshop, offered by Oklahoma International Export Services (OIES), a joint program of the Oklahoma Department of Commerce and the U.S. and Foreign Commercial Service of the U.S. Department of Commerce.
- "The U.N. Sales Convention: A New Tool to Help In Drafting International Sales Contracts," by Mark A. Goldstein, in *Business America* magazine, U.S. Department of Commerce, November 21, 1988.
- *A Summary of U.S. Export Administration Regulations*, International Trade Administration, Office of Export Administration, January 1985.
- "Indications of Potential Illegal Exports," from *Business America* magazine, U.S. Department of Commerce, February 29, 1988.
- *Executive Guide to the Antiboycott Laws*, by Michael G. Deal. Copyright: Hall, Estill, Hardwick, Gable, Golden & Nelson, 1984, 1988.
- *An Executive Guide to the Foreign Corrupt Practices Act in International Transactions*, by Michael G. Deal, September 1988.
- "Corporate Export Compliance Programs," by Marcia E. Downs, in *Business America* magazine, U.S. Department of Commerce, September 17, 1984.

- *Distribution License: A Guide for Reviewing Export Controls*, U.S. Department of Commerce, Bureau of Export Administration. July 1989.

SPECIFIC OBJECTIVES | IN-HOUSE REGULATORY COMPLIANCE PROGRAMS 21

OBJECTIVE 1 **State purposes of in-house regulatory compliance programs.**

- To verify company compliance with specific export license requirements
- To verify company compliance with the Export Administration Regulations
- To verify company compliance with antiboycott and FCPA requirements
- To help prevent potential violations and penalties

  EXAMPLE: Penalties can include lengthy investigations, the loss of export privileges, fines, and imprisonment.

- To evaluate in-house procedures against the written plan (and recommend improvements)
- To help maintain consistent in-house procedures for regulatory compliance

OBJECTIVE 2 **Discuss the importance of management commitment to effective compliance programs.**

The commitment of management at all levels to a written in-house regulatory compliance program is important because of the competitive pressures that are a part of export (and domestic) sales. These pressures could lead to a poor decision that is potentially more costly to the company than the actual export sale. (For example, review the possible penalties for failing to comply with the FCPA.) Management commitment **can demonstrate to export personnel the importance of compliance activities in everyday operations**. Because lower-level employees often commit the violation, the commitment to regulatory compliance activities by all levels of management **can create an atmosphere that promotes careful and consistent compliance activities** by all company personnel involved with export transactions.

Violations can also occur within different departments in the same company. For example, the "legal department" must be sure that any agreements with foreign distributors do not violate export regulations, including FCPA and antiboycott requirements; the "marketing department" must be sensitive to regulatory compliance issues relating to the specific destination of the goods when designing export marketing plans for new markets or new products in foreign countries; the "traffic/shipping department" must be able to account for all export documents required for each shipment; and the "finance department" must be alert to potential violations involving, for example, boycott clauses in letters of credit or FCPA violations relating to expense accounts and other disbursements. Because of the many **opportunities** for regulatory violations, the in-house compliance program should be a **centralized** program involving the close cooperation of all "departments" involved in the export sale. **Management commitment can help establish and promote cooperation among the different functional departments in-house** that play a part in any export sale.

OBJECTIVE 3

Match possible components of a written, in-house compliance program with the objectives of each component.

NOTE: These components might not be complete and do not represent the needs of all exporters. You should develop a written in-house compliance program that meets your specific needs.

REVIEW OF CRITICAL POINTS

- To identify the operations, transactions and arrangements vulnerable to regulatory violations [including]
  - finance, payment and collections
  - marketing/promotion
  - traffic/distribution and shipping
  - documentation/recordkeeping
- To identify regulatory and legal issues involved in company export operations [including]
  - export license requirements
  - Export Administration Regulations
  - antiboycott compliance
  - FCPA compliance
  - intellectual property rights protection
  - product liability
- To identify individuals requiring training and the needed level of training
- To establish documentation requirements for operations, transactions and arrangements vulnerable to regulatory violations

TRAINING PROGRAM

- To implement a management-supported compliance policy
- To provide different levels of training, as needed
- To educate about regulatory requirements and their on-the-job implications
    - management at all levels
    - personnel at identified "critical points"
    - all other personnel
- To explain the content, purpose, and timing of review procedures
- To help document in-house compliance efforts

CONTROLS

- To identify qualified "reviewers" of compliance activities
- To establish procedures for evaluating the total compliance program

  NOTE: Exporters should monitor compliance activities as they would other in-house operations.

- To establish procedures for evaluating the performance of in-house reviewers
- To identify areas for emphasis and/or recommended corrective action
- To help determine the cost-effectiveness of in-house compliance activities
- To demonstrate good faith in compliance efforts

RECORDKEEPING PLAN

- To provide an updated record of compliance activities
- To manage documentation needs for operations, transactions and arrangements
- To support a response to potential inquiries from enforcement authorities
- To prepare for possible future legal action

OBJECTIVE 4 **Identify qualifications of compliance program reviewers.**

- Objective

  NOTE: Persons who are not involved in company export operations can objectively review and evaluate in-house compliance activities.

- Familiar with company export goods
- Familiar with company export procedures
- Knowledgable about compliance issues [including, but not limited to]
  - export license requirements
  - Export Administration Regulations
  - antiboycott compliance
  - FCPA compliance
  - intellectual property rights protection
  - product liability
- Good oral and written communication skills
- Enough authority to ensure acceptance by management of review results and recommendations

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OBJECTIVE 5

State basic guidelines for designing in-house regulatory compliance programs.

- Get advice from the Department of Commerce and from qualified and objective outside legal counsel.
- Obtain management commitment at all levels.
- Educate everyone.
- Reduce the **opportunities** for regulatory violations.

  EXAMPLE: You can limit the needs of your compliance programs by using general export licenses whenever possible, since exports under general licenses would not involve the potential for violating export control regulations.
- Design and implement a centralized compliance program.
- Establish and regularly evaluate in-house compliance activities.
- Document operations, transactions and arrangements vulnerable to regulatory violations.
- Document compliance activities.

QUICK CHECK

IN-HOUSE REGULATORY COMPLIANCE PROGRAMS

21

Name ______________________________ Score __________

OBJECTIVE 1

State purposes of in-house regulatory compliance programs. State four (4) purposes.

1. ____

____

2. ____

____

3. ____

____

4. ____

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OBJECTIVE 2

Discuss the importance of management commitment to effective compliance programs. Include as many main points as possible.

____

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OBJECTIVE 3

Match possible components of a written, in-house compliance program with the objectives of each component. Write the correct letter in the blank beside each group of objectives.

a. Review of critical points
b. Training program
c. Controls
d. Recordkeeping plan

____ 1.

- To identify qualified "reviewers" of compliance activities
- To establish procedures for evaluating the total compliance program
- To establish procedures for evaluating the performance of in-house reviewers
- To identify areas for emphasis and/or recommended corrective action
- To help determine the cost-effectiveness of in-house compliance activities
- To demonstrate good faith in compliance efforts

____ 2.

- To identify the operations, transactions and arrangements vulnerable to regulatory violations [including]
  - finance, payment and collections
  - marketing/promotion
  - traffic/distribution and shipping
  - documentation/recordkeeping
- To identify regulatory and legal issues involved in company export operations [including]
  - export license requirements
  - Export Administration Regulations
  - antiboycott compliance
  - FCPA compliance
  - intellectual property rights protection
  - product liability
- To identify individuals requiring training and the needed level of training

- To establish documentation requirements for operations, transactions and arrangements vulnerable to regulatory violations

____3. • To implement a management-supported compliance policy

- To provide different levels of training, as needed
- To educate about regulatory requirements and their on-the-job implications
  - management at all levels
  - personnel at identified "critical points"
  - all other personnel
- To explain the content, purpose, and timing of review procedures
- To help document in-house compliance efforts

____4. • To provide an updated record of compliance activities

- To manage documentation needs for operations, transactions and arrangements
- To support a response to potential inquiries from enforcement authorities
- To prepare for possible future legal action

OBJECTIVE 4

Identify qualifications of compliance program reviewers. Write an "X" in the blank beside each qualification.

____1. Objective

____2. Familiar with company export goods

____3. Familiar with stated company export procedures but unfamiliar with procedures as practiced

____4. Knowledgable about compliance issues

____5. Good oral and written communication skills

____6. Enough authority to ensure acceptance by management of review results and recommendations

OBJECTIVE 5

State basic guidelines for designing in-house regulatory compliance programs. State five (5) guidelines.

1.

2.

3.

4.

5.

OBJECTIVE 1

Any four of the following:

- To verify company compliance with specific export license requirements
- To verify company compliance with the Export Administration Regulations
- To verify company compliance with antiboycott and FCPA requirements
- To help prevent potential violations and penalties
- To evaluate in-house procedures against the written plan (and recommend improvements)
- To help maintain consistent in-house procedures for regulatory compliance

OBJECTIVE 2

The commitment of management at all levels to a written in-house regulatory compliance program is important because of the competitive pressures that are a part of export (and domestic) sales. These pressures could lead to a poor decision that is potentially more costly to the company than the actual export sale. Management commitment can demonstrate to export personnel the importance of compliance activities in everyday operations. Because lower-level employees often commit the violation, the commitment to regulatory compliance activities by all levels of management can create an atmosphere that promotes careful and consistent compliance activities by all company personnel involved with export transactions.

Violations can also occur within different departments in the same company. Because of the many opportunities for regulatory violations, the in-house compliance program should be a centralized program involving the close cooperation of all "departments" involved in the export sale. Management commitment can help establish and promote cooperation among the different functional departments in-house that play a part in any export sale.

OBJECTIVE 3

1. c
2. a
3. b
4. d

OBJECTIVE 4

1, 2, 4, 5, 6

OBJECTIVE 5

Any five of the following:

- Get advice from the Department of Commerce and from qualified and objective outside legal counsel.
- Obtain management commitment at all levels.
- Educate everyone.
- Reduce the **opportunities** for regulatory violations.
- Design and implement a centralized compliance program.
- Establish and regularly evaluate in-house compliance activities.
- Document operations, transactions and arrangements vulnerable to regulatory violations.
- Document compliance activities.

UNIT OBJECTIVES

EXPORT ORGANIZATION

22

INTRODUCTION

Because exporting is different from domestic sales, companies must organize their resources to meet the special needs of export sales. The organization of export operations should agree with the extent of company commitment of personnel, financial and other resources to export sales. Organizational options include the dependent export department, the semi-independent export department, and the international sales division. In addition to organizing in-house export activities, managers will also benefit from the skills available from freight forwarders, international banking specialists, legal counsel, EMC services, DOC district offices, CITD trade specialists, vo-tech export specialists and others.

UNIT OBJECTIVE

After completing this unit, you should be familiar with basic options and resources for organizing in-house export operations. Qualified advice can assist you with these objectives for your particular export operations.

SPECIFIC OBJECTIVES

After completing this unit, you should be able to

1. Explain the importance of organizing in-house export activities.
2. Describe options for organizing in-house export activities.
3. Identify responsibilities for major functional areas.
4. List basic equipment and supplies.
5. List options for filing.
6. List opportunities for training in-house personnel.
7. List sample budget components for export operations.
8. State basic guidelines for organizing export operations.

SUGGESTED ACTIVITIES

EXPORT ORGANIZATION 22

PREPARATION

- Order additional materials to supplement this unit.

  NOTE: Also see the Unit References.

- Review the unit and plan your presentation:
  - Estimate the amount of material that can be covered in each class session.
  - Plan for appropriate Assignments.
  - Identify objectives that you can supplement with other resources.
  - Invite guest speakers in advance.

    EXAMPLE: Area exporters

- Design transparencies and handouts to reinforce the objectives in each unit, to provide additional information, or to facilitate in-class activities.

DELIVERY

Objectives 1-8

- Invite area exporters to describe their operations.
- Draw possible flowcharts for each option.
- Explain the differences between a telex machine and a FAX machine.
- Discuss the importance of each item and suggest other equipment and supplies.
- Show examples of each filing option.
- Describe situations where company involvement in exporting may increase and the possible changes needed in the structure of export operations.

EVALUATION

- Give the Quick Check soon after presenting the unit.
- Remind participants throughout your presentation that the questions and required performance on each Quick Check match the Specific Objectives stated at the beginning of the unit and the objectives discussed in the unit.

UNIT REFERENCES

- "Fundamentals of Exporting" workshop, offered by Oklahoma International Export Services (OIES), a joint program of the Oklahoma Department of Commerce and the U.S. and Foreign Commercial Service of the U.S. Department of Commerce.
- "IMAP" workshops (International Management Assistance Program), offered by the Center for International Trade Development (CITD), Oklahoma State University.
- *International Trade Curriculum*, a joint vocational education curriculum project of Alaska, Oregon, and Washington. 1989. Developed by the Alaska Department of Education, Office of Adult and Vocational Education. Copies available from Alaska Department of Education, Office of Adult and Vocational Education, P.O. Box F, Juneau, AK 99811, or call (907) 465-2980.

SPECIFIC OBJECTIVES

EXPORT ORGANIZATION

22

OBJECTIVE 1

Explain the importance of organizing in-house export activities.

Because exporting is different from domestic sales, companies must organize their resources to meet the special needs of export sales. The organization of export operations should agree with the extent of company commitment of personnel, financial and other resources to export sales. The export organizational structure should also maximize the use of available in-house resources. Developing profitable markets may require more time for export sales than for domestic sales. Sales may fail to meet expectations until the goods have an established niche in the foreign market. Therefore, a long-term commitment to export sales can pay off. In addition, foreign markets are increasingly competitive. Companies having a short-term commitment to a business relationship in foreign markets might not reach their potential in these markets. A company's organization of export activities should allow the company to adjust to changes in foreign markets. Your competitive position in a foreign market might also require a certain organizational structure in order to secure or improve your position.

OBJECTIVE 2

Describe options for organizing in-house export activities.

Dependent export department—This option involves using the same functional departments and personnel associated with domestic sales to perform export sales functions. The domestic sales manager might coordinate and supervise export activities or assign multiple export activities to the direction of a separate export manager. However, the management of export operations remains with domestic sales management. This option could also include coordinating export activities with the services of an EMC.

Semi-independent export department—This option involves establishing export operations under domestic sales management. Export specialists under an export manager work to establish and develop foreign markets. Under this option, the export department is responsible for export activities only, including evaluating specific export channels of distribution, visiting and working with foreign representatives, and suggesting company export policies for specific foreign markets. However, the export department is still within the domestic sales department and under the overall direction of domestic sales management. The export department also remains dependent on other domestic departments and personnel to complete export sales transactions, such as marketing, finance, shipping, and other departments.

This option could also include coordinating export activities with the services of an EMC.

International sales division—This option involves establishing and staffing an export department that is completely independent of the domestic sales department. All responsibilities for export sales are handled within the division's own export departments—such as export order-processing, export marketing, shipping documentation, and others—in cooperation with freight forwarders, international banking specialists, legal counsel, and other outside resources as needed. Within the division, export operations can be organized according to product line, geographic area, and other common characteristics.

NOTE: Export operations can also be organized through a foreign sales office, a wholly-owned branch or subsidiary, or international joint venture. Each option has its advantages and disadvantages. See Unit 1.

OBJECTIVE 3

Identify responsibilities for major functional areas.

NOTE: This list does not include the outside skills available such as freight forwarding, international banking, legal counsel, EMC services, and others.

MANAGEMENT

- Defines company export commitment
- Evaluates company and product export potential
- Establishes company export objectives
- Approves written international marketing plans
- Chooses the option(s) for organizing in-house export activities
- Assigns tasks, responsibilities and resources
- Determines training needs

MARKETING

- Identifies target markets
- Chooses promotion options
- Communicates with foreign representatives and buyers
- Coordinates all export activities

- Identifies and recommends changes in operations and international marketing plans [to management]

CREDIT

- Maintains commercial financial information
- Acts as liaison between the company and banks and other financial institutions
- Evaluates commercial credit risks of companies and countries
- Recommends credit policies while protecting company assets

ORDER-PROCESSING

- Processes export orders
- Ensures proper export packing
- Acts as liaison between the company and the freight forwarder

  NOTE: A competent freight forwarder can perform most shipping functions for your company. However, you should designate at least one person in your company to coordinate and supervise these activities.

- Arranges for shipment
- Prepares shipping documents
- Tracks the movement of goods and documents

OBJECTIVE 4 **List basic equipment and supplies.**

EQUIPMENT

- Telex or FAX machine
- Personal computer and printer
- Typewriter (with extra elements having foreign language characters, if possible)
- Photocopier

FOR YOUR INFORMATION

The importance of computers in international trade

Computers are almost standard equipment for any business today. Besides their obvious uses, computers also have export-specific applications that will vary depending on your needs, equipment and software. Computers allow you to maintain up-to-date records on export sales in different ways. For example, you can maintain files for individual foreign buyers, files for specific foreign markets, files arranged in chronological or alphabetical order, and other records. Computers allow you to prepare documents and revise them easily (without having to create the whole document again). These documents can include cover letters, sales program overviews, agent/distributor applications, pro forma invoices, contracts, mailing lists and others. They can also assist you in tracking the processing and shipping of export orders. Computers are becoming increasingly valuable in communications between freight forwarders and international banking specialists. For example, certain documents can be prepared by a banking specialist from data input by your freight forwarder and transmitted to the bank via computer. This can help reduce discrepancies in shipping documents before the documents are printed, and can reduce the time needed to prepare the documents and receive payment.

In addition, a "lap-top" portable personal computer can be valuable when you travel abroad. For example, it could allow you to review your sales data or your files on foreign contacts before meetings or negotiations. You could also use it to make notes about your visits while at your hotel or during your return flight. These notes could be very useful in corresponding with your foreign contacts after you return to the United States.

SUPPLIES

- File folders
- World map and world atlas
- Time zone charts

  NOTE: Many world atlases include a time zone chart. International time zones are also included as an Appendix in the DOC *Basic Guide to Exporting*.

- Business cards (translated on reverse, if possible)

- Collateral materials

  NOTE: Collateral material is information that defines your company and your product, such as company and sales literature, metric product specifications and catalogs, price lists, videotape presentations and others. This material can help you on two "levels" of promotion for export sales. First, it can help you identify potential foreign agents or distributors. Second, it can support the promotion activities of your **established** agents or distributors in the foreign market. See Unit 8.

- Reference publications

  EXAMPLE: Foreign language dictionaries (as needed), *Basic Guide to Exporting*, *Exporter's Encyclopaedia*, *Ports of the World: A Guide to Cargo Loss Control*, *Overseas Business Reports*, *Guide to Incoterms*, Travel publications (as needed)

- Subscription to a major newspaper

- Telephone directories (U.S. and international)

  NOTE: You can order telephone directories through Worldwide Directory, 2374 Grissom Drive, St. Louis, MO 63146 (or call 1-800-SWB-BOOK).

- Telephone numbers and addresses of contact persons for export assistance

  EXAMPLE: DOC district office, CITD trade specialists, vo-tech export specialists, international banking specialists, freight forwarders, qualified legal counsel, and others

OBJECTIVE 5 **List options for filing.**

- Create a country file for each country.

- Create a company file for each foreign company, arranged alphabetically within a country file.

- Create a contact file for individuals, arranged within a company file.

- Create chronological files for duplicate copies of daily correspondence.

  NOTE: You can file the original correspondence in the appropriate company file and file a photocopy in a separate file arranged in chronological order.

OBJECTIVE 6 **List opportunities for training in-house personnel.**

- Attend export education and training programs.

  EXAMPLE:

  - DOC national and local training programs, seminars, and other education opportunities
  - Local discussions and presentations of world trade associations and District Export Councils
  - Specialty workshops offered by certain freight forwarders
  - Vo-tech, university and college programs and courses
  - Self-study of export publications

- Study selected export reference publications.

  NOTE: Export reference publications can help to educate in-house export personnel about the fundamentals of exporting and can later become part of an in-house "export library."

- Review basic information about potential foreign markets.

  EXAMPLE:

  - Geographic location
  - Languages spoken and written
  - Brief history
  - Customs and traditions
  - Economic and other relationships, including common markets and free trade associations
  - Identification with Country Groups for U.S. export control purposes

  - Other information

- Provide an employee orientation program covering in-house export activities.
- Attend trade shows.
- Visit foreign representatives and foreign markets.

OBJECTIVE 7 **List sample budget components for export operations.**

- Management and personnel

  EXAMPLE:

  - Export manager(s)
  - Export specialist(s)
  - Administrative/clerical
- Market research

  EXAMPLE:

  - Publications: subscriptions and purchases
  - Data/reports preparation
  - On-line charges
- Communications

  EXAMPLE:

  - Telephone/telex/FAX charges
  - Postage/express courier charges
  - Copying charges
- Promotion

  EXAMPLE:

  - Advertising expenses
  - Collateral materials
  - Trade show/video/catalog show preparation

  - Translations
- Travel (foreign and domestic export-related)
- Packing/shipping preparation
- Export services

  EXAMPLE:

  - Freight forwarding services
  - Int'l banking/specialized services
  - Insurance
  - Legal counsel
  - EMC services (if applicable)
- Facilities/equipment

  EXAMPLE:

  - Miscellaneous office equipment/supplies
  - FAX machine(s)
  - Copier/copying services
  - Utilities
- Service after the sale
- In-house training

OBJECTIVE 8

State basic guidelines for organizing export operations.

NOTE: The organization of export operations should agree with the company's written international marketing plan.

- Identify in-house export capabilities and outside skill requirements.
- Match available in-house personnel with their possible export responsibilities.

  NOTE: Write job descriptions for specific export duties and tasks.

- Outline minimum and maximum sustainable operating costs for export operations.
- Establish timetables for organizing export operations.
- Obtain management commitment to proposed export operations.
- Reassess the structure of export operations as company involvement changes.

QUICK CHECK

EXPORT ORGANIZATION

22

Name ______________________ Score __________

OBJECTIVE 1

Explain the importance of organizing in-house export activities. Include as many main points as possible.

OBJECTIVE 2

Describe options for organizing in-house export activities. Briefly describe each option.

Dependent export department— ______________

Semi-independent export department— ______________

International sales division—

OBJECTIVE 3

Identify responsibilities for major functional areas. Write the name of each functional area in the correct blank.

1.

- Defines company export commitment
- Evaluates company and product export potential
- Establishes company export objectives
- Approves written international marketing plans
- Chooses the option(s) for organizing in-house export activities
- Assigns tasks, responsibilities and resources
- Determines training needs

2.

- Maintains commercial financial information
- Acts as liaison between the company and banks and other financial institutions
- Evaluates commercial credit risks of companies and countries
- Recommends credit policies while protecting company assets

3. ______________________________

- Processes export orders
- Ensures proper export packing
- Acts as liaison between the company and the freight forwarder
- Arranges for shipment
- Prepares shipping documents
- Tracks the movement of goods and documents

4. ______________________________

- Identifies target markets
- Chooses promotion options
- Communicates with foreign representatives and buyers
- Coordinates all export activities
- Identifies and recommends changes in operations and international marketing plans [to management]

OBJECTIVE 4

List basic equipment and supplies. List seven (7) items.

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________
5. ______________________________
6. ______________________________
7. ______________________________

OBJECTIVE 5

List options for filing.

1.

2.

3.

4.

OBJECTIVE 6

List opportunities for training in-house personnel. List four (4) opportunities.

1.

2.

3.

4.

OBJECTIVE 7

List sample budget components for export operations. List seven (7) budget components.

1.
2.
3.
4.
5.
6.
7.

OBJECTIVE 8

State basic guidelines for organizing export operations. State four (4) guidelines.

1. ______________________________

____

2. ______________________________

____

3. ______________________________

____

4. ______________________________

____

QUICK CHECK ANSWERS

EXPORT ORGANIZATION

22

OBJECTIVE 1

Because exporting is different from domestic sales, companies must organize their resources to meet the special needs of export sales. The organization of export operations should agree with the extent of company commitment of personnel, financial and other resources to export sales. The export organizational structure should also maximize the use of available in-house resources. Developing profitable markets may require more time for export sales than for domestic sales. Sales may fail to meet expectations until the goods have an established niche in the foreign market. Therefore, a long-term commitment to export sales can pay off. In addition, foreign markets are increasingly competitive. Companies having a short-term commitment to a business relationship in foreign markets might not reach their potential in these markets. A company's organization of export activities should allow the company to adjust to changes in foreign markets. Your competitive position in a foreign market might also require a certain organizational structure in order to secure or improve your position.

OBJECTIVE 2

Dependent export department—This option involves using the same functional departments and personnel associated with domestic sales to perform export sales functions. The domestic sales manager might coordinate and supervise export activities or assign multiple export activities to the direction of a separate export manager. However, the management of export operations remains with domestic sales management. This option could also include coordinating export activities with the services of an EMC.

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OBJECTIVE 3

1. Management
2. Credit
3. Order-processing
4. Marketing

OBJECTIVE 4

Any seven of the following:

- Telex or FAX machine
- Personal computer and printer
- Typewriter (with extra elements having foreign language characters, if possible)
- Photocopier
- File folders
- World map and world atlas
- Time zone charts
- Business cards (translated on reverse, if possible)
- Collateral materials
- Reference publications
- Subscription to a major newspaper
- Telephone directories (U.S. and international)
- Telephone numbers and addresses of contact persons for export assistance

OBJECTIVE 5

In any order:

- Create a country file for each country.
- Create a company file for each foreign company, arranged alphabetically within a country file.
- Create a contact file for individuals, arranged within a company file.
- Create chronological files for duplicate copies of daily correspondence.

OBJECTIVE 6

Any four of the following:

- Attend export education and training programs.
- Study selected export reference publications.
- Review basic information about potential foreign markets.
- Provide an employee orientation program covering in-house export activities.
- Attend trade shows.
- Visit foreign representatives and foreign markets.

OBJECTIVE 7

Any seven of the following:

- Management and personnel
- Market research
- Communications
- Promotion
- Travel (foreign and domestic export-related)
- Packing/shipping preparation
- Export services
- Facilities/equipment
- Service after the sale
- In-house training

OBJECTIVE 8

Any four of the following:

- Identify in-house export capabilities and outside skill requirements.
- Match available in-house personnel with their possible export responsibilities.
- Outline minimum and maximum sustainable operating costs for export operations.
- Establish timetables for organizing export operations.
- Obtain management commitment to proposed export operations.
- Reassess the structure of export operations as company involvement changes.

GLOSSARY

Acceptance—(1) A time draft that the drawee has accepted and must pay at maturity; (2) the drawee's act in receiving a draft and thereby becoming obligated to pay its value at maturity; and (3) any agreement to purchase goods under specified terms (in a broad sense)

Account party—The party that opens a letter of credit; also referred to as the buyer, importer, accountee or applicant

Ad hoc arbitration—Arbitration administered and conducted under terms agreed upon by the parties to the dispute

ADS—Agent/Distributor Service

Advising bank—A U.S. bank that handles letters of credit for a foreign bank by notifying the seller that credit has been opened in the seller's favor under specified conditions of the letter of credit; the bank authenticates the genuineness of the credit

All risk clause—Term of insurance coverage that covers only physical loss or damage from external causes; does not protect against loss or damage from strikes, riots, civil disturbances, and war

Amendment—A change made to one or more terms of the original letter of credit

American Arbitration Association (AAA)—An organization whose members are committed to resolving disputes through arbitration and other voluntary methods; functions include providing administrative services for different methods of dispute resolution, referring parties in a dispute to arbitrators and mediators, maintaining a library covering topics in dispute resolution, and educating the public

Arbitration—A method of resolving a dispute in which the parties to the dispute choose an impartial decision-maker to settle the dispute in a setting agreeable to all parties

Arbitrator—The impartial decision-maker in an arbitration, agreed-upon by the parties to a dispute or by an accepted arbitration organization, serving individually or in panels and including, but not limited to, technical experts, legal experts, management representatives and others able to handle issues relating to the particular dispute

ASEAN—Association of South East Asian Nations

AWB—Air waybill

Bankers acceptance—A negotiable credit or time draft, with or without a letter of credit, accepted for payment by a bank and (1) payable upon maturity or (2) sold to a U.S. bank for immediate payment

Barter—Receiving payment for export goods in the form of goods and/or services from the buyer

Beneficiary—The person in whose favor a letter of credit is issued or a draft is drawn; also referred to as the seller, exporter, drawer or shipper

Bills of lading—A contract between the owner of the goods and the carrier, prepared by the carrier or forwarder, which documents the shipment, serves as a receipt, and indicates the condition of the goods upon the carrier's acceptance; if written "to order," it serves as a negotiable instrument allowing the buyer to take possession of the goods

B/L—Bill of lading

Blacklist—A boycott-based list of persons or firms with which business dealings are not allowed

Boycott—To refuse to do business with a specific person, company, or country for various reasons

Bureau of Export Administration (BXA)—The agency within the U.S. Department of Commerce responsible for developing export control policy, processing export license applications, determining the timing of decontrols, and enforcing U.S. export control laws; also includes the Office of Export Licensing (OEL), the office that processes applications for export licenses and that is responsible for granting or denying export licenses

BXA—Bureau of Export Administration

Carrier—The transporter of the export shipment on land, air or ocean

Cash in advance—Shipping the goods to the buyer after the buyer has made payment

Catalog and Video/Catalog Exhibitions—A DOC promotion event that shows company catalogs or videotapes to potential foreign agents, distributors and other foreign representatives in selected world markets; sales leads, visitor lists, and other results are forwarded to the company after the show; priced per event

CCCN (Customs Cooperation Council Nomenclatûre)—Formerly called BTN (Brussels Tariff Nomenclature), used by countries of the European Community before the HS System was implemented

CCL—Commodity Control List

Center for International Trade Development (CITD)—An export development center at Oklahoma State University that provides one-on-one training and offers assistance in evaluating product and company export potential, market research, marketing plans, establishing distributors, and creating special export sales programs

Certificate of origin—A signed statement required by some countries certifying the origin of the export goods

C & F (Cost and Freight)—Seller assumes all costs and risks to bring the export goods to the named port of import, except the cost of insurance; the risk of loss or damage to the goods is transferred to the buyer when the goods pass the ship's rail in the port of export

Channel of distribution—The network of firms or individuals through which a U.S. company exports its goods to foreign markets

Choice of forum—Relating to dispute resolution through legal action (litigation), the selection of the court having jurisdiction over the dispute by the parties involved

Choice of law/governing law—In contracts between U.S. companies and foreign representatives, the U.S. company's specification in the contract ("governing law clause") that the contract will be governed under the laws of a U.S. state

CIF (Cost, Insurance, and Freight)—Seller quotes a price that covers cost, insurance, and freight, including all transportation and miscellaneous charges to the point of debarkation from the vessel or aircraft

CIMS (Commercial Information Management System)—The automated DOC trade information service useful for conducting market research; locating trade leads; identifying foreign contacts such as foreign agents, distributors, manufacturers, retailers, government purchasing officials, and end-users; evaluating foreign contacts; assessing current conditions in target markets; and other applications

CISG—United Nations Convention on Contracts for the International Sale of Goods

Clean draft—A draft to which no documents have been attached

Clearing agent—Assists in clearing export shipments through customs; also called a "customs broker"

COCOM—Coordinating Committee on Multilateral Export Controls

Collection papers—All documents submitted to a buyer in order to receive payment for a shipment

Commercial invoice—A bill for the goods from the seller to the buyer

Commercial loan—A loan to finance export sales until payment is received, including loans for working capital and for revolving lines of credit

Commercial News USA—A monthly export catalog-magazine distributed worldwide that promotes new U.S. products (those on the market less than three years) and established products and services in foreign markets; priced per listing, depending on options

Commodity—Any article, material, or supply except technical data

Commodity Control List (CCL)—The list of commodities in the Export Administration Regulations that are under the export control jurisdiction of the Bureau of Export Administration

Conference carrier—An ocean carrier that belongs to an association of carriers offering standardized shipping practices, common freight rates, and regularly-scheduled service between specific ports

Confirmed irrevocable L/C—A U.S. bank promises to pay the seller even if the issuing bank defaults

Confirming bank—A U.S. bank that promises to honor the drafts and documents presented by the seller even if the issuing bank defaults

Consignment sales—The seller ("consignor") ships the goods to a foreign distributor or other agent ("consignee"), who sells the goods on behalf of the seller and makes payment after the sale; the seller retains title to the goods until they are sold by the consignee

Consolidator—A specialized firm or service that groups several export shipments having the same destination, to obtain better pricing or service, with or without containerization

Consular invoice—A document required by some countries for identifying and controlling goods shipped to that country

Containerize—Packing export goods in sealable metal containers for shipping, including intermodal cargo movement

Contingent interest insurance—Insurance obtained by the exporter (1) to protect the exporter's financial interest in the export goods in countries requiring placement of marine insurance on imports through local insurance companies, and (2) to protect the exporter's financial interest in the export goods until the buyer pays for the goods

"Coordinating Committee on Multilateral Export Controls" (COCOM)—A multilateral organization of member nations that cooperate in restricting strategic exports to controlled countries

Copyright—A form of intellectual property that prevents the unauthorized reproduction of specific kinds of original works of authorship

Countertrade—A method of payment in which the seller receives payment in whole or in part in the form of goods or services transferred from the foreign country

Country Groups—Seven groupings of countries for export control purposes, included in Supplement 1 to Part 770 of the Export Administration Regulations

D/A—Documents Against Acceptance

Date draft—Similar to a time draft, but stating a due date for the buyer's payment instead of allowing a time period after the buyer's acceptance

DEC—District Export Council

DELIVERED AT FRONTIER—Seller assumes all costs and risks to bring the export goods to the frontier, but before the "customs border" of the named country in the sales agreement

DELIVERED DUTY PAID [named buyer's premises]—Identifies the seller's maximum obligations if the buyer's premises are specified; seller assumes all costs and risks to bring the export goods from the seller's premises to the buyer's premises

Destination Control Statement—A statement required by the U.S. Government on the commercial invoice and bill of lading or air waybill for most commercial shipments leaving the U.S., notifying the carrier and all foreign parties, such as the intermediate and ultimate consignees and purchaser, that the goods have been licensed for export to certain destinations only and that diversion contrary to U.S. law is prohibited; sometimes called an "antidiversion clause"

Direct exporting—The U.S. company establishes complete responsibility for the export process within the company, including researching the market, establishing distribution networks, performing exporting functions, and servicing the market

Discrepancy—When the documents presented under a letter of credit do not conform to the terms of the letter of credit, often resulting when required information is missing or varies from the stated text of the letter

Distribution license—A special license that authorizes the export of eligible commodities to approved consignees in specified countries, without dollar value or quantity limits; consignees must be foreign distributors or users of the licensed commodity

District Export Council (DEC)—A U.S. Department of Commerce program that offers new exporters direct contact with experienced exporters who serve without compensation, and supports Department of Commerce export workshops, seminars, and other informational programs

DOC—Department of Commerce

Dock/warehouse receipt—Documents used to transfer accountability when the export goods are delivered to the export carrier and accepted by the carrier at its storage warehouse or port of export; most exit terminals require these documents before they will accept the goods

Door-to-Door—Transporting a shipment of export goods from the manufacturer's premises to the foreign buyer's location

D/P—Documents Against Payment

Draft—An unconditional order in writing from the drawer to the drawee that directs the drawee to pay a specified amount to a named drawer at a fixed or determinable future date; also called a "bill of exchange;" in letter of credit transactions, it is the formal, legal demand for payment

Dumping—A pricing strategy, usually illegal, involving the export (or import) of goods into a foreign country below the costs of producing and shipping the goods, often causing damage to local manufacturers of the goods

Duty—A tax on imports, either ad valorem (based on a percentage of the stated value of the goods), specific (a flat charge based on weight or quantity), or combination (both ad valorem and specific)

EAR—Export Administration Regulations

EC—European Community

ECCN—Export Control Commodity Number

EMC—Export Management Company

ETC—Export Trading Company

EX [named point of origin]—The quoted price applies only at the named point of origin; seller assumes all costs and risks to bring the export goods to the named point; buyer assumes all costs and risks from the named point

Eximbank—Export-Import Bank of the United States

Export Administration Regulations—U.S. export regulations issued by the Department of Commerce to implement the Export Administration Act of 1979 and detailed under Parts 768-799, inclusive, of Title 15 of the Code of Federal Regulations

Export control commodity number (ECCN)—A classification number used to identify commodities on the Commodity Control List

Export documentation—The documents that accompany the movement of an export shipment

Exporting—The direct or indirect sale of goods or services to foreign markets

Export license—A permit to ship a commodity from the United States to a foreign destination, required by the U.S. Government for most export shipments and often requiring supporting documents

Export management company (EMC)—A company that facilitates sales between U.S. companies and foreign buyers; performs the services of an "export department" for its client companies through its own established networks of foreign sales agents, distributors, and customers, and either buys and resells the client company's goods or receives a commission on sales; its functions generally include export sales, shipping, financing, distribution, promotion and other areas; can specialize by geography or industry

Export price escalation—The increase in the export price resulting from the addition of shipping and insurance charges, duties, taxes, mark-ups, distributor's expenses, and other expenses to the manufacturer's quoted price

Export trading company (ETC)—A private or government-sponsored company (such as by a state government) established by a group of producers in a common industry for coordinated export operations; is exempt from U.S. antitrust laws for the purpose of foreign competition; its functions generally include export sales, shipping, financing, distribution, promotion and other areas

Export-Import Bank of the United States (EXIMBANK)—A source of federal government assistance for export financing through direct loans, loan guarantees, working capital loans and commercial credit risk insurance (through the Foreign Credit Insurance Association—FCIA)

Export jobber/wholesaler—A domestic company that buys and takes title to a U.S. manufacturer's goods, then sells the goods to its own foreign buyers

FAS (Free Alongside Ship)—Seller assumes all costs and risks to bring the export goods to the named port of export, including the costs of unloading and wharfage; buyer assumes all costs and risks for loading, transporting, and insuring the goods from the named port

FCIA—Foreign Credit Insurance Association

FCPA—Foreign Corrupt Practices Act

Federal Maritime Commission—Regulates ocean shipping

FET (Foreign Economic Trends)—Discusses the current business and economic developments in specific countries; also describes economic indicators such as GNP, inflation, levels of foreign trade and others; updated annually or semi-annually by U.S. embassies, depending on the value of the country as a trading partner

FOB (Free On Board) [named inland point or port of export]—Seller assumes all costs and risks to bring the export goods to the named inland point or port of export; buyer assumes all following costs and risks

Force majeure—Acts or consequences that cannot be anticipated or controlled

Foreign Agricultural Service (FAS)—The agency within the U.S. Department of Agriculture (USDA) responsible for USDA export promotion activities—including counseling, promotional programs, and financing support—for exporters of agricultural commodities, livestock, and processed foods

Foreign Buyer Program—A DOC promotion event that brings foreign buyers to selected U.S. trade shows and advises participating U.S. companies in meeting the needs of the visiting foreign representatives; priced per event

Foreign Credit Insurance Association (FCIA)—A quasi-public insurance association that provides for commercial and political risk insurance in partnership with the Eximbank

Foreign distributor—A foreign representative who buys and sells export goods for its own account and resells the goods for a profit

Foreign government-controlled trading company—A trading company authorized and controlled by a foreign government, through which export sales must be made

Foreign inquiry—Contact from a potential foreign buyer

Foreign sales agent—A foreign representative who procures business for and on behalf of the U.S. principal, usually for a commission, but does not buy and sell goods for its own account

Free of particular average (FPA)—Term of insurance coverage that generally restricts coverage to total losses (however, partial losses are recoverable in the event the vessel is stranded, sunk, burned, or has been on fire or in a collision)

Free Trade Agreement (FTA)—A bilateral (two-party) trade agreement

Freight forwarder—A specialized firm acting as an agent for the exporter and international carriers in preparing export documents and contracting for shipment of the export goods

FT410 (U.S. Exports, Schedule E Commodity by Country) —A Bureau of the Census publication listing the monthly and cumulative (January to date) level of goods exported from the U.S. in quantity and dollar value, according to Schedule E commodity groupings and commodities; also identifies the countries of destination

FTZ—Free Trade Zone

General Agreement on Tariffs and Trade (GATT)—An international treaty created to help promote world trade by reducing trade barriers between the parties to the treaty

General average loss—Term of insurance coverage that provides contributions by both ship and cargo owners to those suffering loss or damage to their export goods resulting from an intentional sacrifice by the master of the vessel in time of danger, for the benefit of both vessel and cargo

General license—A published authorization, described in Part 771 of the Export Administration Regulations, for the export of certain goods to certain destinations without requiring the exporter to submit an application prior to export (provided the transaction meets the criteria set forth in Part 771)

Harmonized System (HS)—A 10-digit code replacing the old Schedule B numbers in recording exports on the SED

IATA—International Air Transport Association

ICC—International Chamber of Commerce

IMR (International Market Research)—An in-depth analysis for one industry in one country; provides information such as market size, outlook, end-users, channels of distribution, trade barriers, competitive situation, and other data

Incoterms—Terms of sale used in international trade, issued by the International Chamber of Commerce and replacing the Revised Foreign Trade Definitions of 1941 as the world standard; when explicitly accepted by the buyer and the seller, these terms assign specific risks and obligations to the buyer and the seller in an export transaction

Independent/nonconference carrier—An ocean carrier that does not belong to a conference, but which operates on a regular schedule and may offer lower rates on some shipments than conference carriers

Indirect exporting—The U.S. company assumes partial responsibility for and has limited control over the export sales process by appointing another company to locate foreign buyers and ship its goods for export, or by selling its goods to another company, which in turn exports the goods

Individual license—Any validated license, other than a special license, that authorizes the export of specific technical data or a specified quantity of commodities during a specified period to a designated consignee

Inspection certificate—Occasionally required by the country of the foreign buyer and completed by an independent testing firm, certifying that the goods being shipped conform to the terms of the order, thereby protecting the buyer against fraud or error

Institutional arbitration—Arbitration administered by an impartial organization not associated with the dispute and conducted according to the rules of that organization

Insurable interest—The party to an export sale that will benefit from the safe arrival of the export goods or that will incur a loss by the loss, damage, or retention of the goods

Insurance certificate—A negotiable instrument required by the shipper's insurance company, stating the type and amount of insurance coverage provided by the seller

Insured—The owner of an insurance policy; the policyholder

Intellectual property—A broad collection of rights relating to things such as books, films, inventions, trademarks, patents, service marks, and trade secrets

Intellectual property laws—Laws that create, confirm, or regulate a property right without which others could use or copy an idea, an expression, a design, or a product or its mark and packaging

Intermediate consignee—The bank, forwarding agent, or other intermediary (if any) acting in a foreign country as an agent for the exporter, the buyer, or the ultimate consignee, to effect the delivery of the export goods to the ultimate consignee

Intermodal cargo movement—The use of different modes of transportation to move an export shipment, including inland freight such as by rail or by truck

International Air Transport Association (IATA)—A trade and service organization for airlines having international routes; functions include classifying containers and working for uniform rules and rates

International banking specialists—Experts at commercial banks offering international banking services such as trade financing, documentary credits, collection services, foreign exchange services, and export documentation assistance, among others

International Market Reports—Foreign market reports for select major industry segments, including data such as: a past four-year analysis of U.S. exports for specific product categories (from the FT410); market size; industry profile; end-user analysis; market environment; and best sales prospects (where identifiable)

Irrevocable L/C—The issuing bank promises to pay the seller even if the buyer defaults

ISA (Industry Sector Analysis)—An edited version of International Market Research (IMR) reporting on an industry sector in a particular country; consists mainly of market size and outlook, end-user analysis, competitive situation, trade barriers and best sales prospects

Issuing bank—The bank that opens a letter of credit for the buyer; also called the opening bank

ITA—International Trade Administration

L/C—Letter of credit

LCL shipment—A shipment of export goods that is less than a full container load

Letter of credit—A document issued by the buyer's bank that allows the seller to draw a specific sum of money under specific terms

Letter of credit (commercial)—A payment guarantee from the buyer allowing the seller to receive payment after the seller has presented specified documents that comply with stated terms and conditions in the credit; the issuing bank substitutes its credit for the buyer's credit; also called an L/C

License application—An application for a validated export license

"Marine" insurance—Ocean marine cargo insurance that insures export goods shipped by air or ocean against loss or damage to the goods in-transit to foreign markets

Matchmaker Trade Delegations—A DOC promotion event that locates and evaluates potential foreign agents, distributors and other foreign representatives and schedules interviews overseas between the U.S. company and the prescreened foreign contacts; priced per event

Negotiation—A method of resolving a dispute in which the parties themselves settle the dispute by discussing the issues involved and agreeing on a solution

New York Convention on Enforcement of Foreign Arbitral Awards ("New York Convention")—An international standard for recognizing and enforcing in member countries arbitral awards made in other countries

Nontariff barrier (NTB)—A "burden" to imports created by the government and/or private sectors in the target market country that effectively screens out imports to the target market or makes the import noncompetitive in price

NVOCC ("Non-Vessel Operating Common Carrier")—An indirect common carrier that is licensed by the Federal Maritime Commission to transport sea freight under its own rate structure and that does not own its own vessels

OAC—Office of Antiboycott Compliance

OBR (Overseas Business Reports)—Offers a general overview of the business conditions in a specific country, including current marketing information, banking and credit policies, trade regulations and transportation requirements, trade forecasts, distribution and sales channels, and economic/commercial profiles of industrialized and developing countries; also reports selected statistics on the direction, volume and nature of U.S. foreign trade with specific countries, by commodity groups; includes a semi-annual outlook for U.S. trade with countries and regions

OECD—Organization for Economic Cooperation and Development

OEE—Office of Export Enforcement

OEL—Office of Export Licensing

Office of Antiboycott Compliance (OAC)—The office within the Department of Commerce responsible for administering antiboycott laws by conducting investigations, educating the public, operating a telephone advisory service, and developing a yearly report to Congress

Office of Export Licensing (OEL)—The office within the U.S. Department of Commerce that processes applications for export licenses and is the final authority in determining export licensing requirements and granting or denying validated export licenses

Oklahoma Export Assistance Program—A program coordinated by the Oklahoma Department of Vocational and Technical Education, in cooperation with the Department of Commerce, to assist Oklahoma companies with international contracting opportunities; provides procurement notices and the services of trained specialists who can assist in obtaining bid documents, listing firms on appropriate source lists, obtaining bid packs, locating and obtaining copies of international specifications or foreign trade regulations cited in bid packs, and informing businesses about the available services of state and federal agencies

Oklahoma International Export Services (OIES)—A joint program of the Oklahoma Department of Commerce (international division) and the U.S. Department of Commerce to counsel and assist Oklahoma exporters; one of the 48 DOC District Offices; assists exporters in identifying and evaluating overseas markets, contacting foreign representatives, preparing for and participating in promotion events, and other export-related services; also functions as a conduit for offering DOC/ITA/US&FCS international marketing information and programs and provides access to industry and country desk officers

Open account—Shipping the goods to the buyer, without a letter of credit or a documentary collection arrangement; the seller invoices the buyer for the shipment and relies upon the buyer to pay

OPIC—Overseas Private Investment Corporation

Overseas Private Investment Corporation (OPIC)—A U.S. Government-owned corporation that offers specialized financing services, political risk insurance and other insurance options for exporters

Packing list—An itemized list describing the contents of each package in a shipment, used in determining the total weight and volume of a shipment and for verifying the cargo (by the shipper or forwarder, and by U.S. and foreign customs officials)

Paris Convention for the Protection of Industrial Property ("Paris Convention")—An international patent and trademark convention requiring member nations to provide equal treatment for their own citizens and foreigners in granting patent or trademark rights, and setting forth a right of priority for patent and trademark applications

Particular average loss—Applies whenever a total loss occurs to part of the export goods, or when the goods arrive at their destination in a damaged condition

Patent—A right granted to an inventor by the government allowing the inventor to exclude others from making, using, or selling the invention for a specified period of time in exchange for disclosing the invention to the public

PEFCO—Private Export Funding Corporation

Perceived value—A target market influence on export pricing policies defined as the end-user's (customer's) perception of the export goods; factors include the product, company image and perceived expertise, and intangibles such as quality

"Perils of the sea"—A term in marine insurance that designates the causes of loss of goods for which the carrier is not legally liable

Pilferage—A cause of loss where small amounts of a shipment are stolen

Port-to-Port—Transporting a shipment of export goods only for the shipping interval between the port of export and the foreign port

Presentation—When collection papers are submitted, often to a bank under the terms of an L/C, allowing the seller to receive payment for a shipment

Principal—The U.S. company when it appoints a foreign representative

Private Export Funding Corporation (PEFCO)—A private corporation owned by investors, mostly commercial banks, that provides medium- and long-term loans to foreign borrowers for buying U.S. goods and services, and can supplement the financing options provided by commercial banks or Eximbank

Pro forma invoice—An export price quotation in the form of an invoice, including information about the type and quantity of goods to be shipped, their value, cost of the transaction under specific terms of sale, and other specifications; the manufacturer usually prepares this document in response to a foreign inquiry or when contacting a potential foreign representative

Project license—A special license that authorizes the export of commodities (and technical data where specifically authorized) required for a specified activity during a period of approximately one year from the issuance of the license

Quotation—An offer to sell goods at a stated price based on costs, terms of sale, and other specific conditions, and usually valid for a specified period of time

Remitting bank—A bank that sends a draft to a foreign bank for collection

Revocable L/C—A letter of credit that can be amended or cancelled by the buyer or the issuing bank at any time, without the seller's approval

Roll-On/Roll-Off (Ro/Ro) service—A vessel that carries mainly wheeled cargo, such as cars, trucks, trailers, machinery and others, which are loaded and unloaded by driving the cargo onto and off of the vessel via a ramp

SBA—Small Business Administration

Schedule B—A classification system unique to the United States in which U.S. export data are originally recorded on the Shipper's Export Declaration (SED). Prior to the adoption of the Harmonized System in the United States on January 1, 1989, this system used a 7-digit number. The "new" system uses an 11-digit number.

Schedule E—A classification system unique to the United States in which U.S. export data compiled from the SED were reported by the Bureau of the Census in the FT410, prior to January 1, 1989

S/D—Sight draft

SED—Shipper's Export Declaration

Service-supply license—A special license that allows persons or firms in the United States and in foreign countries to provide prompt service for equipment exported from the United States; produced overseas by a subsidiary, affiliate, or branch of a U.S. firm; or produced overseas by a manufacturer who uses parts imported from the United States in the manufactured product

Shipper's Export Declaration (SED)—A document prepared by the exporter or forwarder and required by the U.S. Department of Commerce for shipments over $1,500.00 ($500.00 by mail) or for shipments requiring a validated export license; used to control exports and to compile U.S. export statistics

Shipper's Letter of Instruction—A document from the manufacturer to the freight forwarder that states all parties to the export transaction and the functions to be performed by each; also instructs the forwarder to whom to send required documents

SIC (Standard Industrial Classification)—A classification system unique to the United States for identifying U.S. domestic manufactured products and services

Sight draft—A formal demand for payment sent to the buyer's bank, with required shipping documents, after the seller ships the goods; the buyer's bank releases the shipping documents allowing the buyer to take possession of the goods, only after the buyer makes payment; also called Cash Against Documents (CAD or C/D) or Documents Against Payment (DAP or D/P)

SITC (Standard Industrial Trade Classification)—The international trade data format developed by the United Nations for reporting foreign trade data

Small Business Administration (SBA)—Assists U.S. exporters through Field Offices by providing export counseling, sponsoring export training programs with the Department of Commerce, providing the Export Revolving Line of Credit (ERLC), loan guarantees, direct loans, and organizing contacts for legal advice

Standby L/C—A letter of credit that functions as a "security device" to protect a third party from loss when the seller fails to perform certain obligations; at the request of the seller, the issuing bank gives the buyer the right to draw funds by presenting certain documents according to the terms and conditions set forth in the credit; the documents required might simply be the buyer's statement that the seller has defaulted

STELA (System for Tracking Export License Applications)—A U.S. Department of Commerce computer-generated voice unit, accessed through push-button telephones, that reports the up-to-the-minute status of license applications, amendments, or reexport requests

Tariff—A term often used instead of "duty," but usually meaning a system of duties in a foreign market; point-to-point transportation rates

Tariff barrier—An additional monetary assessment on imports created by the target market country and applied per unit of the import, assessed on the total value of the imports, or both; acts as a "barrier" when it is large enough to make the exporter's price noncompetitive in the target market

Time draft—A formal demand for future payment sent to the buyer's bank, with required shipping documents, after the seller ships the goods; the buyer's bank releases the shipping documents allowing the buyer to take possession of the goods, only after the buyer's acceptance, i.e. the buyer's written promise to pay the draft at maturity; also called Documents Against Acceptance (D/A)

Trade acceptance—A formal demand for future payment sent to the buyer's bank with required shipping documents, after the goods are shipped; the buyer's bank releases the shipping documents allowing the buyer to take possession of the goods, only after the buyer signs a time draft (the buyer's "acceptance"), promising to pay within a certain time period

Trade leads—A foreign offer to buy (or sell) a particular product or service; also called "sales lead;" information often includes the name and address of the foreign contact, a description of the offer, preferred methods of payment, response guidelines, bid deadlines, and other data; sources include the DOC Trade Opportunities Program (TOP), Commerce Business Daily, the USDA Foreign Agricultural Service (FAS), the World Bank, and others

Trademark—An identifying mark, such as a word or symbol, used by a business to distinguish its goods and services from those of other businesses

Trade secret—Information that a business seeks to keep secret because the information may not be known outside the business and may be the source of a competitive advantage, such as formulas, manufacturing methods, designs, and others

Tramp service—An ocean carrier usually having no fixed routes, rates, or schedules, and often carrying a single bulk cargo between a loading port and a discharge port

TSUSA—*Tariff Schedules of the United States, Annotated*

Ultimate consignee—The foreign party that will actually receive the export goods for their designated end-use

Unconfirmed irrevocable L/C—The issuing bank assumes the sole responsibility for paying the seller

Underwrite—To assume a risk, such as a commercial credit risk or foreign political risk, by providing appropriate insurance coverage against specific losses

US&FCS—U.S. and Foreign Commercial Service

USDA—United States Department of Agriculture

Validated license—A license authorizing export

War risk, strikes, riots and civil commotion—Excluded from all risk policies, but can be reinstated by a special endorsement or by a separate policy at an additional premium

Whitelist—A boycott-based list of persons or firms with which business dealings are allowed

With average (WA)—Term of insurance coverage that protects against partial damage due to sea perils if the partial damage amounts to three percent (or other specified percentage) or more of the total value of the shipment or shipping package; provides for waiver of percentage requirement and payment in full in the event the vessel is stranded, sunk, burned, or has been on fire or in a collision

World trade associations—Local or regional associations of individuals and firms representing all aspects of international trade; meet to discuss topics of common interest to members and provide opportunities for exchanging export ideas, experiences, and advice

WTDR—*World Trader's Data Reports*